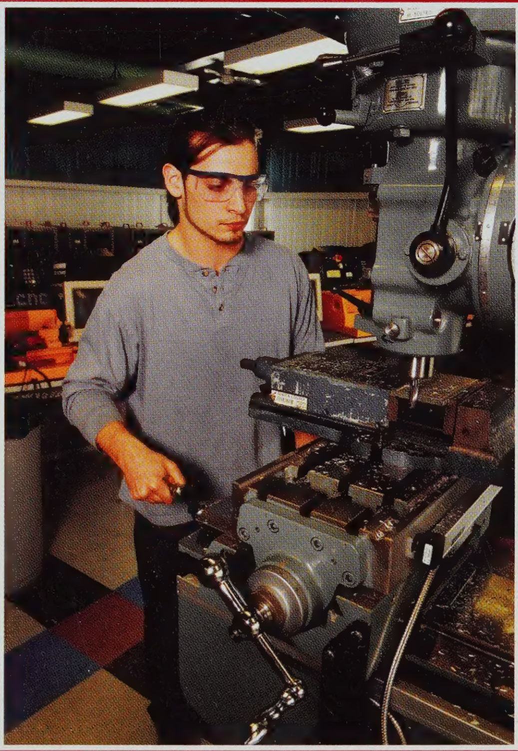
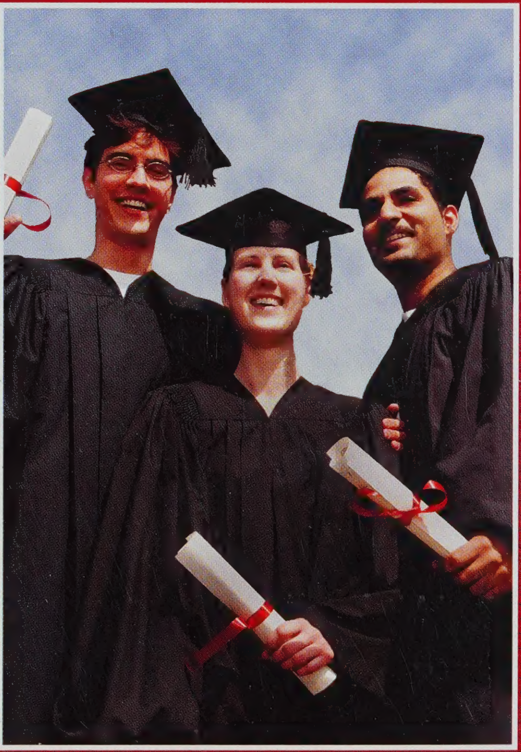
Ontario

2005
ONTARIO BUDGET

Investing in People
Strengthening our Economy

The Honourable Greg Sorbara
Minister of Finance





Budget Speech

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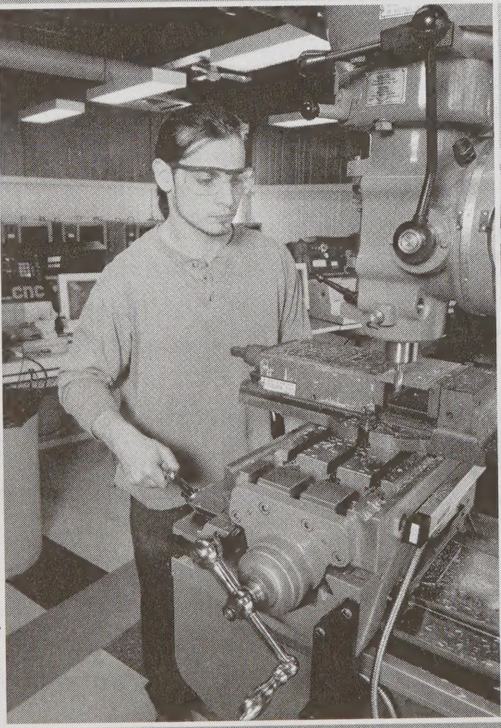

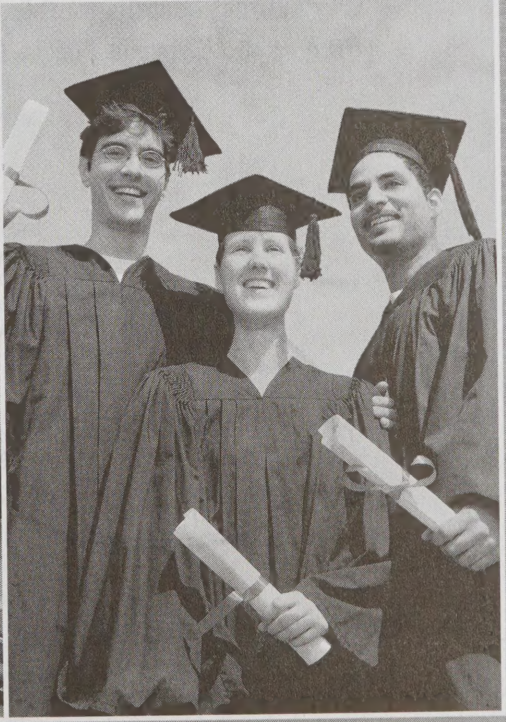

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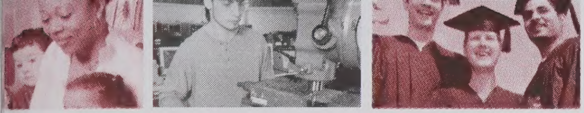

OUR PLAN

Mr. Speaker, when our government was sworn into office just 19 months ago, we pledged to work as hard as the 12.5 million people we serve:

- to fix their schools;
- to improve their health care; and
- to strengthen the economy of this magnificent province.

progress on our plan

One year ago, I presented a plan to turn that commitment into reality. Today, I am proud to report real progress. Here are just a few examples:

- class sizes in the early grades are smaller, there are more teachers, and test scores are higher;
- Family Health Teams are now starting up;
- a historic 1.8-million-acre greenbelt now provides a buffer defining the rapidly growing Greater Toronto Area; and
- our Auto Strategy is leveraging $3.5 billion worth of new investment.

deficit cut in half

All of this, Mr. Speaker, while we have seen the economy create 146,000 new jobs since we took office! All of this, Mr. Speaker, while cutting in half the deficit that was predicted for 2004-05.

I am proud of how well the province has done in our first full year. The results are clear. Our plan is sound. Our plan is working. Our plan is working for the people of Ontario because this government is working with the people of Ontario.

We have formed productive new partnerships — with students, parents and teachers; with patients, doctors, nurses and other health professionals; and with farmers and businesspeople.

Today, I have the honour of introducing the next phase of our plan to strengthen our province by investing in our people. It's a plan to deliver better schools for better learning, better health care for healthier Ontarians, smart investment in infrastructure for a stronger

historic investment in postsecondary education

economy, and strong financial management. And, Mr. Speaker, I am proud to announce historic new investments in universities, colleges and training — the most significant injection in 40 years.

Before I outline the details, I want to underline what lies at the heart of this Budget — and that is fiscal discipline.

The deficit for 2004-05 is $3.0 billion — some $2.5 billion less than what we inherited from our predecessors.

We accomplished this because the economy performed better than expected. Our revenues — particularly corporate tax revenues — were higher. Our interest costs — through better debt management and rates — were lower. We did not use our reserve. And we imposed discipline on the management of resources across government.

fiscal discipline

We watched every penny. So the deficit is smaller. But it has not disappeared. Far from it. We are still working our way through a structural deficit that continues to threaten our ability to fund the public services our people depend upon.

Our plan shows that — at the latest — we will have a balanced budget in 2008-09. It may be possible to get there in 2007-08, if we don't need our reserve. But we will only get there if we continue to make discipline our watchword and hold the line on spending in most ministries.

On that point, I want to thank my cabinet and caucus colleagues for their support and their discipline.

hold the line on spending

Mr. Speaker, I also want to thank the many Ontarians who spoke to us, often with great conviction and passion, during our pre-budget hearings. We heard every request. Unfortunately, we cannot grant every request. We simply do not have the financial resources to do so.

Mr. Speaker, to govern is to choose.

We have chosen to invest in Ontarians' priorities — health, education and prosperity — and to do so without introducing any new taxes or tax increases.

We choose to invest in the future. And we believe, sir, we have chosen well.

EDUCATION — Success for Students

Reaching Higher in Postsecondary Education

Mr. Speaker, from Mowat to Davis to McGuinty, our greatest premiers have made public education their highest priority. Our future demands this approach.

economic edge

In today's knowledge economy, education is the prerequisite for prosperity. The brains and know-how of a skilled workforce are the economic edge of the 21st century.

So, if we are to continue to compete with our neighbours to the South, and take on the rapidly growing economies of Brazil and Russia, India and China, we simply must equip ourselves with the skills to compete.

invest in the future

That is why an investment in postsecondary education today is an investment in jobs tomorrow. But education is more than an economic imperative. It is the measure of our commitment to opportunity — it's the foundation of an engaged citizenry and a strong democracy.

Education stands at the centre of our plan.

I am therefore honoured to announce Reaching Higher: The McGuinty Government Plan for Postsecondary Education. It is an unprecedented investment in higher education.

We will invest an additional $6.2 billion in our universities, our colleges, our training, our apprentices and our students by 2009-10. In return for this massive investment, we will demand more access, higher quality and better accountability.

doubling student assistance

Now, by access, we mean more student assistance, more student places and more opportunity for new Canadians. By quality, we mean more resources, more faculty, more time for students with faculty, and more innovative research. And by accountability, sir, we mean agreements and followup that ensure that greater investment equals greater results.

One year ago, we asked former Premier Bob Rae to conduct a review of postsecondary education. I want to thank Mr. Rae and his advisory panel publicly for the depth of insight in their report and the dispatch with which they delivered it. Informed by that report, we are now implementing our plan.

New investments are already underway. New funding began last year, with an additional $200 million. And we will add $683 million this year. By 2009-10, our annual spending on postsecondary education will be $1.6 billion higher than was originally planned for in the 2004 Budget.

more opportunities

Mr. Speaker, we believe, as Ontarians believe, that if you have the marks, you deserve the opportunity. So I'm pleased that Reaching Higher will double the funding available for student assistance — improving assistance for some 135,000 students starting this year. We believe as well that, once you get the opportunity, you deserve a quality education.

Our investment represents a 35 per cent increase in operating funds for institutions.

We also propose to make targeted investments to improve aboriginal education and francophone education as well as opportunities for first-generation students, new Canadians and persons with disabilities.

Success for Students

Best Start

Mr. Speaker, the foundation for the success of students begins in the early years. That's why we are so enthusiastic about our Best Start program. Best Start will significantly increase child care spaces for

early years

children in junior and senior kindergarten and make child care fee subsidies available to more families.

And let's give credit where credit is due: the federal government will help — starting with an additional $272 million this year. With federal funding, our Province's investment will double by 2007-08. It will make Best Start a reality.

Success for Students

Getting our children off to the best start is one thing. Providing them with the best schools is another.

Our plan is to make public education the best education.

We want students to be able to read, write and do math at a high level of comprehension by age 12. We want more students to stay in school, so they're learning to age 18 and beyond. In just 19 months, we've come a long way:

higher test scores

- this year, close to 60 per cent of Grade 6 students met the Provincial standard in reading and math — that's real progress from last year;
- our Grade 10 students' scores are up this year as well;
- one in three schools in Ontario boasts smaller class sizes in the earlier years;
- we've trained 8,000 lead teachers in best practices and we're training 8,000 more; and
- we've brought peace and stability to the system.

smaller classes

These changes are being felt across Ontario. Now, don't just take my word for it — ask Marie Braz. She's a Grade 3 teacher at Indian Road Crescent Junior Public School in Toronto. She told us that having fewer students in her classroom this year — thanks to the additional teachers we funded — has made a huge difference to her and her students.

We will provide a 15 per cent increase in education funding over four years that will support:

investing in education

- programs to improve reading, writing and math;
- Good Places to Learn — our fund for repairing and renewing our schools;
- the next steps towards achieving a cap of 20 students per class in the earlier years; and
- programs to keep students learning, at least to age 18.

Training

Mr. Speaker, a good education doesn't always mean learning in a traditional classroom. It also means high-quality apprenticeships and workplace training. So this Budget provides for $17.5 million by 2007-08 in new funding to support greater access to labour-market services.

new Canadians in the workforce

Last year, we introduced a significant new Apprenticeship Training Tax Credit for businesses. This year, we're doing more to integrate new Canadians into Ontario's workplaces.

- Bridge Training programs will help skilled people move more quickly into the labour market;
- pilot projects will help increase access to college programs; and
- the Toronto Regional Immigrant Employment Council will create new links with employers.

HEALTH — Focusing on Patients, Sustaining Medicare

plan for better health care

Mr. Speaker, Ontarians' greatest asset is their health. And our government's plan is to do more to help people stay healthy, to provide better care for them if they become sick, and to do what is necessary to ensure medicare is sustained for generations to come.

Our plan includes a $32.9 billion investment in health care.

But spending alone is not the answer. That's why our plan includes more doctors and nurses, shorter wait times and a plan to keep Ontarians healthier. Again, we have already made real progress:

More Doctors and Nurses

more training spots

- We have more than doubled the number of training spots for international medical graduates;
- in the fall, students will begin at a new medical school in northern Ontario;
- we will be increasing first-year medical school spaces by 15 per cent;
- we have provided funding for more than 3,000 new nursing positions in hospitals, long-term care homes, home care and community agencies; and
- we have approved 52 Family Health Teams and three networks of Family Health Teams.

These steps will have a particularly important impact in underserviced areas.

Family Health Teams

Families are excited about these reforms. So are family physicians. One of them, Dr. Kathryn Lockington from Kingston, tells us — and I'm using her words now — that this is going to help her provide the best possible care for her patients, by sharing that care with nurses, dietitians, mental health workers and other professionals.

I want to take this opportunity, Mr. Speaker, to thank Dr. Lockington and through her, Ontario's vast network of health care providers, who are embracing this positive change.

Wait Times

Sir, our plan to reduce wait times is working:

more procedures

- we're updating equipment and we're adding hours of service;
- we've provided thousands more cancer, cataract and hip- and knee-replacement surgeries;

- we've increased the number of MRI exams by almost 14 per cent; and
- we've provided for some 81,000 CT scans — an increase of eight per cent.

We're making a difference.

Healthier Ontarians

We're also investing to keep Ontarians healthier:

- we've provided three new vaccines free of charge for children — saving families up to $600 per child;
- our Smoke-Free Ontario Act is making its way through the legislature;

preventive health care

- we're encouraging healthier practices in our schools by banning junk food and launching Pause to Play, a physical activity program; and
- we're increasing the provincial government share of public health funding from 50 per cent to 75 per cent by January 2007.

And we're working to help health care providers develop long-term plans. Starting in 2005-06, we will, for the first time, begin to provide multi-year, hospital-by-hospital funding.

local co-ordination

We are also introducing 14 Local Health Integration Networks (LHINs) based on the simple principle that local people are best able to determine local priorities.

We'll be providing tens of thousands more procedures and reporting regularly on our wait-time progress on the health ministry Web site. We'll be creating more Family Health Teams to expand integrated primary care.

continuous improvement

Mr. Speaker, medicare is a profound expression of who we are as Ontarians. That is why this government is so committed to continuous improvement of health care for today's patients and to sustainability of health care for generations to come.

ECONOMIC GROWTH — ACHIEVING ONTARIO'S FULL POTENTIAL

Mr. Speaker, the strength of Ontario's economy is critical to our ability to finance not just health care and education, but all the public services provided by the Province. Before I outline the important steps we are taking to strengthen our economy, let me quickly survey our economic environment.

growing economy

We are predicting the economy will grow by 2.0 per cent this year, 2.8 per cent in 2006 and an average of 3.4 per cent annually in 2007 and 2008. The average private-sector forecast is somewhat more aggressive, but we prefer to be cautious.

Even with our prudent assumptions, Ontario is expected to create 65,000 jobs in 2005 and 118,000 jobs in 2006.

With steady gains in employment, overall personal income is expected to increase by 3.8 per cent this year and an average of 4.9 per cent per year through 2006-08.

Still, there are a variety of uncertainties beyond our borders and beyond our control including the rising price of oil, the potential weakening of the U.S. economy, higher interest rates and the appreciation of the Canadian dollar. We will, of course, continue to monitor these risks as we proceed to implement our plan.

comprehensive economic plan

Mr. Speaker, our plan to strengthen the economy is comprehensive:

- the five-year, $6.2 billion investment in Reaching Higher, which I described earlier;
- a five-year, $30 billion investment in infrastructure;
- a sustainable, reliable electricity supply;
- a modern competitive tax environment — this budget contains no new taxes and no tax increases;
- a modernized regulatory environment — we're pursuing a multi-year plan to update Ontario's commercial law framework

and we're launching an agency to champion small business interests;

- targeted investments in key economic sectors;
- expansion of Ontario's research and development capacity; and
- steps to unlock the economic potential of Ontario's regions and municipalities.

The Infrastructure Challenge

infrastructure investment

Mr. Speaker, a healthy business climate depends on infrastructure that is modern, reliable, efficient and affordable. Our five-year, $30 billion infrastructure investment plan will involve both long-overdue projects and urgent new initiatives:

- highway construction in northern and southern Ontario;
- improvements in schools, colleges and universities;
- dozens of expansions and improvements to hospitals; and
- major investments in public transit.

OSIFA

low-cost loans

Sir, to help municipalities get infrastructure projects off the ground — or in the ground — we are making available low-cost, long-term loans through the Ontario Strategic Infrastructure Financing Authority (OSIFA).

Already, 166 Ontario communities are proceeding with some 1,000 local infrastructure projects such as roads and bridges, and water and wastewater facilities.

OSIFA's mandate will now be broadened to provide loans for culture, tourism and recreation projects in municipalities. And, later this year, OSIFA financing will be made available to Ontario universities.

Infrastructure Renewal Bonds

Mr. Speaker, we are also inviting Ontarians to join in these great projects.

retail bonds

Today I am announcing that Ontario residents will have an opportunity to invest in infrastructure projects by purchasing Infrastructure Renewal Bonds. These bonds will go on sale later this year and will provide Ontarians with a solid investment.

Innovative Financing and Borrowing Options

At the same time, this government is exploring ways to accelerate our infrastructure plan. We are looking at ways to encourage Ontario's pension plans to invest more in building Ontario's infrastructure rather than investing their money abroad.

And, may I remind members, a review of major government assets continues. Our commitment remains the same: any net proceeds generated from asset sales would be directed as a first priority to infrastructure.

core principles

Of course, there are certain core principles that will guide both funding and procurement:

- the public interest must be paramount;
- value for money must be demonstrable; and
- processes must be fair, open and transparent.

Municipalities

Mr. Speaker, local communities are where our economy gathers force. Over the last 19 months, we have worked with municipalities and we have made real progress.

gas tax for transit

We are the first government in Ontario history to deliver gas tax dollars for public transit — $195 million this year and $1.4 billion over the next five years.

We introduced the Ontario Municipal Partnership Fund, the Province's largest transfer payment to municipalities — $656 million this year.

And as you know, Mr. Speaker, we are in the process of uploading a greater share of the cost of public health, which will support our goals of healthier Ontarians and more financially stable municipalities.

Affordable Housing

Municipalities have also told us that they need more affordable housing.

15,000 new units

Just days ago, this government signed an important Canada-Ontario affordable housing agreement. It will help provide 15,000 new units of affordable housing including new units for people with mental illness, victims of domestic violence and people in remote communities. It will help provide thousands of people with a safe, decent place to call home.

Northern Ontario

Sir, the economy of northern Ontario has always presented unique challenges and opportunities. Our government is responding to those challenges and enhancing those opportunities.

This year, we are investing $485 million in northern infrastructure — including $297 million to renew and expand northern highways.

Our northern medical school is set to open and we are starting a new northern Ontario nursing education program.

We are providing $20 million in new funding by 2007-08 to increase access to high-quality community college programs in northern and rural communities. We are supporting the mining sector by investing $15 million over three years in geological mapping.

And we are working on ways to strengthen the forest products sector. It's a very important industry for Ontario — it employs over 30,000 people in the North.

Grow Bonds

I am also pleased to report that our Grow Bonds pilot program, announced in last year's Budget, was very successful. Grow Bonds will provide almost $13 million to invest in new and expanding northern Ontario businesses.

Agriculture

Sir, agriculture makes a significant contribution to the economic and social well-being of every Ontarian. The agri-food sector accounts for over $8.6 billion in exports. But it is also facing very real challenges: low grain and oilseed prices, and the unfair interruption of our cattle and beef trade.

support for farmers

To build on our strengths and cope with these challenges, we have provided more than $170 million in support for grain and oilseed farmers, and up to $30 million to facilitate the recovery of the cattle industry.

We are moving forward with the new Renewable Fuel Standard for ethanol. That's good news for our air and our farmers.

In keeping with one of the themes of the recent Premier's agricultural summit — the need for innovation in farming — I'm pleased to tell you that we are establishing a new Chair in Agricultural Research at the University of Guelph.

Research Council of Ontario

Mr. Speaker, research is at the core of intelligent societies. It nourishes excellence. It inspires advancement and productivity gains. It is the fuel of our economic engine.

international research centre

Thus, I am delighted today to announce that we are proposing the creation of the Research Council of Ontario. The Council's job will be to advise on research priorities, to help co-ordinate public research and to raise Ontario's profile as an international research centre. The Council will serve as a beacon focusing the world's attention on Ontario's abilities.

As a very first step, we are consolidating several research expenditures into the new Ontario Research Fund.

We are also supporting research with investments in MaRS — the Medical and Related Sciences discovery district in Toronto — and in the McMaster Innovation Park in Hamilton. And we are establishing a new Chair in Productivity and Competitiveness at the University of Toronto.

Again, our intention is to develop a global reputation for the depth and breadth of our research capacity.

Entertainment and Creative Cluster

talent and technology

Our entertainment and creative cluster already has a global reputation. This cluster brings together talent and technology and creates jobs. So investment in culture, Mr. Speaker, is an investment in both community-building and economic growth.

That's why, in December, we announced an increase in tax credits for Ontario's film and television industry — a sector that generates $2 billion each year for our economy and employs 20,000. As a result of this announcement, more than a dozen film and television productions have started up — and a dozen more are being scouted.

We've also committed $25 million towards the construction of a permanent home for the Toronto International Film Festival.

high-potential industries

This Budget also proposes enhancements to the tax credits available for computer animation, interactive digital media, book publishing and sound recording to encourage these high-profile and high-potential industries.

RESPONSIBLE MANAGEMENT

Fiscal Situation

disciplined financial management

Mr. Speaker, our plan is working because of the discipline we have brought to the management of our finances.

As I mentioned earlier, the deficit for last year is $3.0 billion — some $2.5 billion less than what we inherited from our predecessors. The deficit for 2005-06 will be $2.8 billion and will steadily decline thereafter.

Given our progress, it would have been possible to project a balanced budget by 2007-08. Instead, we've chosen to invest in what Ontarians value: education and health care. We believe these are the right choices.

But even with our investments, we will eliminate the deficit by 2008-09 at the latest. And it may be possible to get there in 2007-08 if we don't need our reserve.

While we are investing in priority areas, we will be holding the line on costs in most ministries. We will continue to be focused and disciplined.

transparency and accountability

And because of our *Fiscal Transparency and Accountability Act*, all of our numbers will be subject to the scrutiny of the Auditor General and the public before the next election.

Fiscal Imbalance

Finally, Mr. Speaker, I must point out that our ability to invest in Ontario's future prosperity continues to be compromised by the difference between what the federal government collects from Ontarians and what it returns to the Province.

strong Ontario — strong Canada

The Government of Ontario and third parties such as CIBC World Markets have identified a $23 billion gap in that regard. We have begun engaging the federal government on this issue and had some early success. But much more needs to be done if we are to ensure a stronger Ontario for a stronger Canada.

If the gap is narrowed, we can accelerate, and even expand, our plan. But our plan cannot wait — because the people of Ontario cannot wait. We are delivering the very best for Ontarians within our financial constraints. We are improving services and at the same time we are reducing the deficit. Both can be done. Both have been done.

CONCLUSION

Mr. Speaker, before I conclude, permit me to take a moment to thank some very important people.

honouring our veterans

Just a few days ago we celebrated the 60th anniversary of V-E Day — and 2005 is the Year of the Veteran. We would not be here today, with the rich opportunities we are blessed with, were it not for the sacrifices that those men and women made more than 60 years ago. We stand here today because they stood up for democracy then. To the veterans in the gallery today, we thank you.

Mr. Speaker, a very dedicated team of public servants in the Ministry of Finance have worked diligently on the design of this Budget. I want to express my sincere gratitude to all of them and would like to pay special tribute to one in particular.

For the past 32 years, Tom Sweeting, Assistant Deputy Minister, Budget and Taxation, has helped to shape the Province's budgetary policies. This Budget is his thirty-second. On behalf of the government, I'd like to thank him for his outstanding commitment, his keen intelligence and his unfailing humour.

And through you, Tom, I would like to pay tribute to the thousands of men and women in the Ontario Public Service who have dedicated their careers to serving the people of this province. You have been an example to all of us.

Mr. Speaker, as the Premier has often said, our people are our greatest asset.

Today we are implementing our plan to invest in their future. In better education, from the early years to the most sophisticated graduate degree; in more timely and compassionate health care; and in a stronger, more productive economy.

unlocking potential

In doing so, sir, we unlock Ontario's great potential and ensure that this province is the place to be now and for decades to come.

Thank you, Mr. Speaker.

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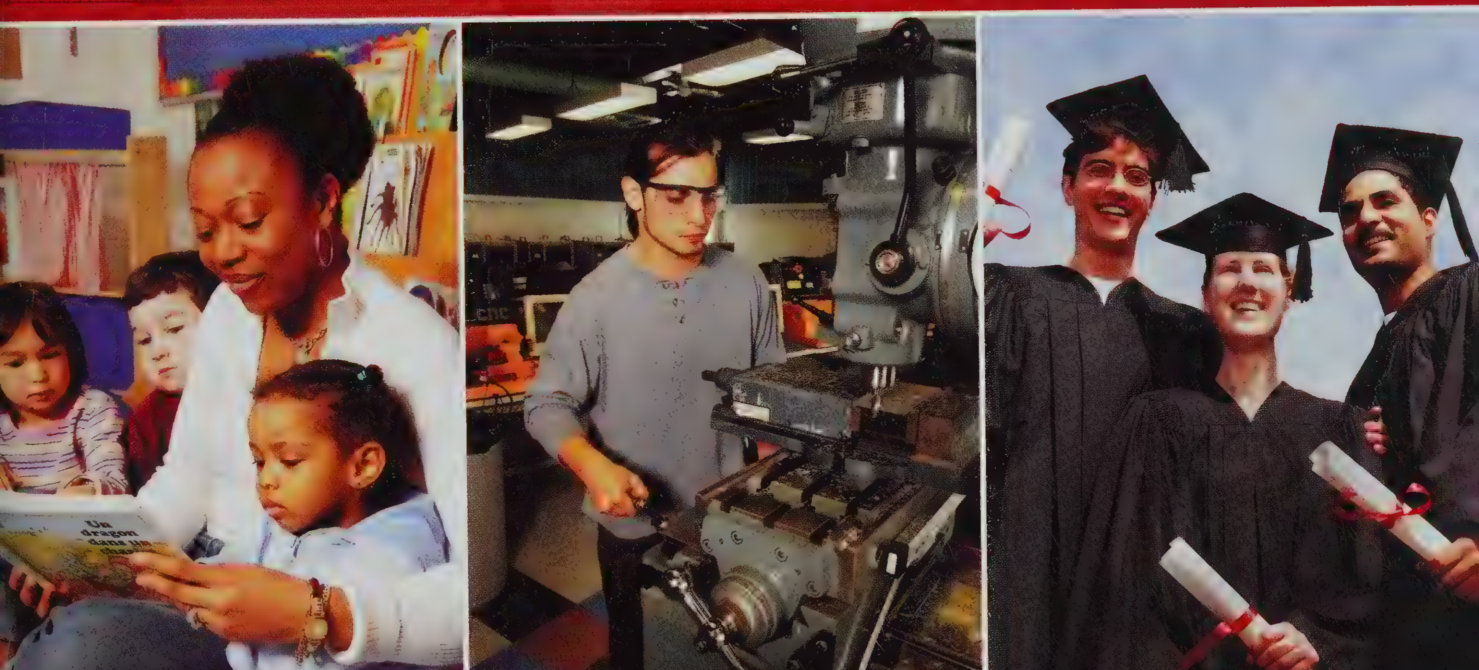

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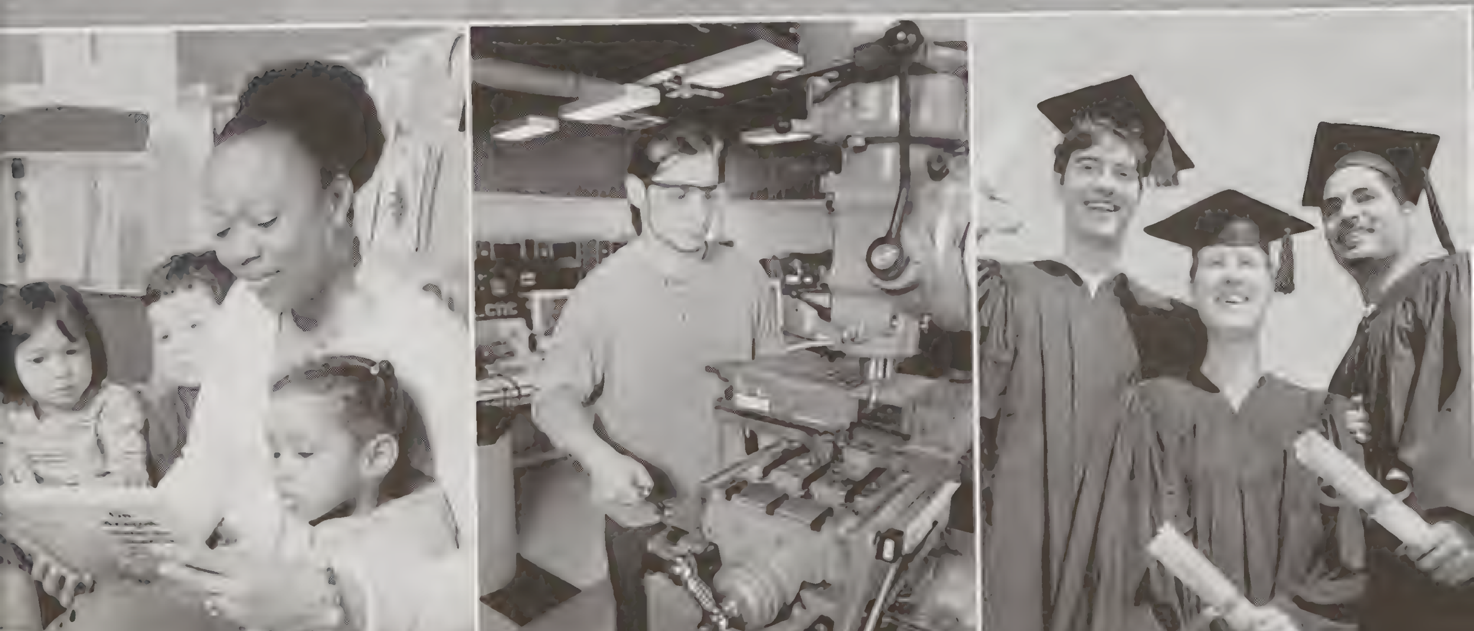

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Investing in People—Managing Ontario's Finances

The Plan for 2005

Introduction

STRENGTHENING ONTARIO BY INVESTING IN PEOPLE

The 2005 Budget strengthens the province by investing in people while continuing to bring discipline to the management of their hard-earned tax dollars. The government is continuing to make key investments in Ontarians' education and skills, health and prosperity. In particular, the Budget features $6.2 billion in cumulative new investments in postsecondary education, including $683 million in 2005-06, rising to $1.6 billion by 2009-10. Education is the single most important investment required to build a strong economy in the 21st century. Only jurisdictions with highly educated, skilled and innovative people will attract investments and value-added jobs.

The deficit has been reduced by $2.5 billion, from $5.5 billion in 2003-04 to $3.0 billion in 2004-05. The Province's plan, which includes historic and long-term investments in postsecondary education, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

The 2004 Budget introduced a new approach: Budgeting for Results. Ontarians know, and understand, that increased spending alone does not guarantee better results. That is why the government constantly reviews the programs it funds against the results they deliver. The government is also reporting regularly on its progress towards achieving expected results, so that Ontarians know what they are getting in return for their investments in education, health care and a strong economy.

This Budget builds on the plan laid out in the 2004 Ontario Budget. It builds on the progress that has been achieved for people through that plan. The government is getting results. For example, class sizes in Ontario's schools are getting smaller in the early grades and test scores are going up. Ontarians have improved access to better health care, through: the approval of 52 Family Health Teams and three networks of Family Health Teams; the upgrade of seven MRI and 27 CT scanners; an additional 5,380 surgical procedures, including 1,700 cancer surgeries; and a record $1.3 billion investment in home care in 2004-05. A total of 108,000 new jobs have been created over the past year, substantial investments have been made in the province's infrastructure, and the Ontario Automotive Investment Strategy is being successfully used to leverage billions of dollars in new investment in one of Ontario's most important sectors.

The plan is working. Real progress is being made in overcoming both of the deficits that were inherited by this government: the largest fiscal deficit since 1996-97 and the severe deficit in the quality of the public services valued most by Ontarians. There is reason for hope and optimism, but no room for complacency. Much work remains to be done. This Budget is the foundation for that work. It represents the next phase in the plan to ensure that Ontario is the place to be, for years to come.

A Strong Fiscal Foundation: Reducing the Deficit

A strong fiscal foundation is essential to Ontario's prosperity. Ever-increasing deficits threaten the viability of the public services Ontarians deserve, from the schools that educate their children to the home care that seniors depend upon. In addition, it is unfair to saddle the next generation with the cost of today's consumption.

But prior to the government assuming office, there were several years during which Provincial program spending grew much faster than the rate of growth in taxation revenue. In fact, between 2000-01 and 2003-04, Provincial program spending increased by 21 per cent, while taxation revenue actually declined by 0.7 per cent. This imbalance between the growth in Provincial program spending and taxation revenue created the conditions for a structural deficit that resulted in a deterioration of the Province's finances. In October 2003, an independent review of the Province's finances by former Provincial Auditor Erik Peters concluded that the newly elected government was inheriting a significant deficit for 2003-04, which has since been confirmed to be $5.5 billion.

The 2004 Budget outlined the government's plan to eliminate the deficit and ensure responsible fiscal management of the Province's finances. This Budget provides an update on the Province's progress and outlines the next phase of the plan.

An important part of that plan is to modernize the way in which government operates and delivers public services in Ontario. The 2004 Budget announced the government's intention to undertake a rigorous review of all government programs to ensure they are being delivered in a cost-effective and efficient manner, and to find savings of $750 million in 2007-08. The government has already identified over half of this savings target. As more than 80 per cent of Provincial program spending is in the form of transfer payments to individuals and organizations such as the government's broader public-sector (BPS) partners, modernization efforts are being pursued across the entire BPS to make more efficient use of public tax dollars.

The interim outlook for 2004-05 forecasts a deficit of $3.0 billion—a $2.5 billion reduction from the previous year, and an in-year improvement of $3.1 billion from the $6.1 billion deficit projected for 2004-05 in the 2004 Budget.

The government's medium-term fiscal plan aims to reduce the Provincial deficit from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 by setting steadily declining deficit targets of $2.8 billion in 2005-06, $2.4 billion in 2006-07, $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

This paper provides an overview of the following:

- **Section I:** Strengthening Ontario by Investing in People: Early Learning, Education, Postsecondary Education, Health and Infrastructure;
- **Section II:** Ontario's Fiscal Plan;
- **Section III:** Details of the Fiscal Plan—Ontario's Medium-Term Fiscal Outlook; and
- **Section IV:** Making Progress: Modernizing Government.

Additional information on Ontario's finances can be found in Appendix 1, *Details on Ontario's Finances.*

Section I: Strengthening Ontario by Investing in People: Early Learning, Education, Postsecondary Education, Health and Infrastructure

In the 21st-century global economy, Ontario's people are its greatest asset. Future prosperity depends on the education, skills and health of the people of Ontario, and the infrastructure that supports them.

This section looks at the plan for early learning, schools, colleges, universities, apprenticeship and training programs, health care and infrastructure—the pillars that will support future prosperity.

Early Learning: Best Start

Children need the best start in life to achieve their full potential—and for Ontario to achieve its full potential. Research supports the view that the early years have a significant influence on a child, from the development of social skills to the ability to learn and succeed.

Despite this knowledge, there has been a lack of investment in high-quality child care and early learning programs, especially over the last decade.

For many working families who want access to quality licensed child care, spaces are hard to find and fees are too expensive. They deserve better. They deserve affordable access to child care and early learning programs.

The government's goal is to ensure that children in Ontario will be ready and eager to achieve success in school by the time they start Grade 1.

To date, the government has:

- created 4,000 new subsidized child care spaces in 2004-05 across the province;
- announced demonstration sites for a comprehensive Best Start plan in Timiskaming, Lambton and Kent, and Hamilton;
- repaired child care facilities and improved learning resources and equipment at child care centres, through investments of $29 million since 2003-04;
- eliminated restrictions on access to child care fee subsidies for parents with RRSPs and RESPs, making more families eligible for subsidies;
- strengthened infant hearing and preschool speech and language programs to identify, treat and support children with communication disorders by investing $6 million in 2004-05; and
- screened all consenting mothers and newborns and provided home visits for mothers of newborns with developmental or other risk factors through investments of $8 million in 2004-05.

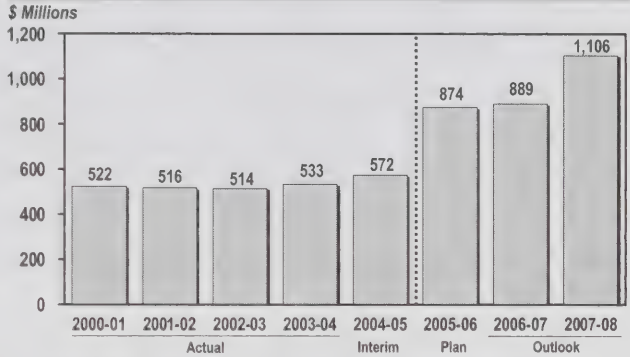
These changes are part of the Province's longer-term vision—known as Best Start—as announced by the Minister of Children and Youth Services.

The next phase of the plan is as follows:

To continue to implement Best Start, and increase the number of children arriving at school ready to learn, the Province will work in partnership with parents, municipalities, schools, communities and early childhood educators.

The recent federal budget proposed that the federal government would provide Ontario with an additional $272 million in 2005-06, rising to $451 million by 2007-08, as part of a national early learning and child care framework. Over the next three years, the Province will use all existing Multi-Lateral Framework and recently proposed new federal contributions to expand child care and early learning opportunities, with priority for children aged four and five. Without these federal transfers, Ontario will not be able to move aggressively in investing in this important area.

Ontario's Child Care Planned Expense*
Operating and Capital



* Expense contingent on funding to Ontario as announced in 2005 federal budget. Excludes Ministry of Children and Youth Services' child care administration costs.
Source: Ontario Ministry of Finance.

With these federal transfers:

- combined Provincial operating and capital spending on child care will more than double compared to spending levels in 2003-04;
- by the end of 2007-08, the Province will significantly increase the number of licensed child care spaces at or near schools so that junior and senior kindergarten students can benefit from a seamless full day of learning and child care;
- affordability of child care will be improved through the redesign of child care subsidies, and by increasing the number of families that can access child care fee subsidies; and
- the learning experience of children in child care will be enhanced through the creation of a new College of Early Childhood Educators to establish high standards in this profession.

The Province will consult with experts and communities to develop early learning strategies to ensure strong linkages between the child care and kindergarten learning experience.

When fully implemented over 10 to 15 years, Best Start envisions extending a full day of learning beginning at age two and a half. Additional and sustained federal contributions are needed if Ontario is to implement the full Best Start vision.

EDUCATION: SUCCESS FOR STUDENTS

Schools pass on to children the knowledge that Ontarians all value—and the values they all acknowledge. That is why making publicly funded education the best education is essential to building a bright and promising future for all of Ontario. This is how Ontario can build the best workforce and the strongest society.

Between 1998 and 2003, funding did not keep up with cost pressures facing school boards. Schools struggled to introduce innovations needed to best serve students and their families. The 2004 Budget laid out a plan for student success. It provided predictable, multi-year funding to help students succeed, while bringing peace and stability to the system. This funding ensures school boards have sufficient resources to lower class sizes, hire more teachers, meet operating costs, maintain school facilities, provide up-to-date textbooks and reach out to more students at risk. It allows the Province to cap class sizes at 20 students from junior kindergarten (JK) to Grade 3 by the 2007-08 school year.

The government is focusing on achieving two key results. The first result is high levels of achievement in literacy and math for every student before age 12. Students who do well in the early grades are far more likely to complete high school and keep learning beyond high school, in a college or university, apprenticeship or training program. The second result is to lower the dropout rate through the Learning to 18 strategy. Currently, about 30 per cent of all students entering high school leave without graduating.

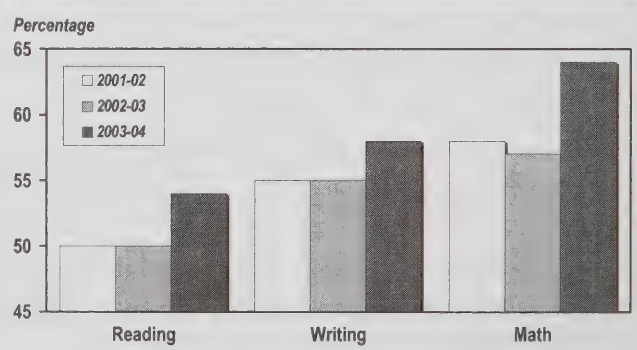
The government's goals are to:

- increase the percentage of Grade 6 students performing at or above the standard on the Provincial reading and math tests to 75 per cent by 2008;
- improve the performance of those schools where two-thirds or more of the students do not meet the Provincial standard in Grade 3 reading tests; and
- reduce the number of students who leave high school without a diploma.

To date, the government has:

- provided support to help Grade 3 and Grade 6 students achieve the first improvements in the Provincial literacy and math tests in three years;
- provided support in 2004-05 to an additional 57 schools that fell below the Provincial average on literacy and math tests, bringing to 100 the total number of schools receiving help from turnaround teams of experts in literacy and math;

Percentage of Grade 3 Students Achieving Provincial Standards (School-Year Basis)



Source: Education Quality and Accountability Office.

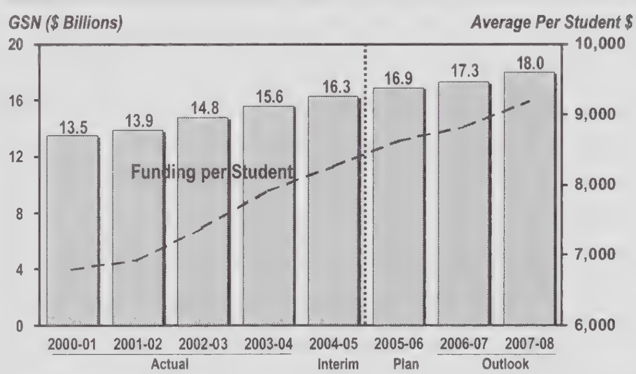
- completed training of 8,000 Lead Teachers in literacy and math for JK to Grade 3, which is the equivalent of two teachers for each elementary school. Training is underway for another 8,000 Lead Teachers and for all other elementary classroom teachers in literacy and numeracy instruction.
- hired 1,100 new teachers, resulting in smaller class sizes in about 1,300 schools, as a first step in the plan to reduce class sizes in JK to Grade 3 to 20 students per class, through an investment of \$90 million in the 2004-05 school year;
- invested \$45 million in 2004-05 in equipment to strengthen technological education programs in high schools;
- invested \$1 million in school-college-work initiatives to promote college education among at-risk high school students, increasing to \$2 million in 2005-06;
- invested \$18 million in more than 100 programs to increase high school graduation rates;
- funded designated leaders in each school board to develop and co-ordinate programs for at-risk youth in order to increase graduation rates; and
- extended the Ontario Scholar Program to include workplace- and college-bound students.

These improvements were achieved by providing school boards with more than \$650 million in additional Grants for Student Needs (GSN) funding in the 2004-05 school year, compared to 2003-04.

The next phase of the plan is as follows:

- Over the next three years, the Province will continue to implement its plan, announced in the 2004 Ontario Budget, to make substantial investments in education. By 2007-08, the Province will provide \$2.4 billion in new GSN funding to school boards compared to 2003-04 levels, an increase of more than 15 per cent on a school-year basis. Average per-student funding will increase by more than \$1,250 or 16 per cent to almost \$9,200.
- In 2005-06, funding will increase by almost \$650 million, to \$16.9 billion, or 8.4 per cent higher than the 2003-04 school year.

Grants for Student Needs
(School-Year Basis)



Source: Ontario Ministry of Education.

- In addition to Grants for Student Needs, the Province will also provide \$250 million in 2005-06 for specific programs to increase literacy and numeracy levels and high school graduation rates.
- Four-year collective agreements are being negotiated across the province between teachers and school boards, within an agreed-upon Provincial framework, bringing peace and stability to Ontario schools.

- Annual Good Places to Learn funding, announced in February 2005, will allow school boards to undertake $4 billion in projects over the next three years, including school construction, facility repairs and renewal.
- The Province will implement the next steps in achieving a cap of 20 students per class for JK to Grade 3.
- The Province will also provide funding to hire specialist teachers in support of higher literacy and math achievement and to increase programming in physical education, music and the arts.
- The Province is implementing a Learning to 18 strategy in 2005-06 that will include funding to school boards for additional teachers to assist struggling students. It will also include an improved Grade 9 math curriculum that will maintain high standards and be more suitable for applied programs, and new Grade 9 and 10 courses will provide students with more opportunities to acquire credits.
- The Province will work closely with school boards to review board business practices and to implement strategies to ensure the effective use of education funding. For example, the Province will assist school boards to work collaboratively to reduce costs in purchasing, transportation and capital planning.

Overall, the Province's education plan will provide $2.9 billion in additional GSN funding to support school boards and to provide targeted literacy and numeracy programs, compared to the funding levels in September 2003.

Reaching Higher: The McGuinty Government Plan for Postsecondary Education

Ensuring the best start for the children of Ontario, and ensuring that public education is the best education, is essential to people's success and the future of Ontario. But it must not stop there. If Ontario is to achieve its full potential, it is critical to reach higher when it comes to postsecondary education. Ontario's colleges, universities and training programs must equip people for success by preparing them to generate the ideas, products and jobs that will ensure future prosperity—the prosperity that funds the social programs that keep society strong. A strong postsecondary education also provides each individual with the opportunity to achieve his or her full potential. Unfortunately, Ontario's colleges and universities are under-resourced—revenues have not kept up with enrolment and the costs associated with a 21st-century postsecondary education system. This has a number of implications, including the fact that Ontario has fewer students who earn postgraduate degrees compared to many U.S. jurisdictions.

In the 2004 Budget, the government asked former Premier Bob Rae to undertake a review of postsecondary education in Ontario. His recommendations, delivered in February 2005, are consistent with the government's strategic direction of strengthening the province by investing in its people.

This Budget announces the McGuinty government's action plan for colleges, universities and training, highlighted by a new $6.2 billion cumulative investment, including an additional $683 million in 2005-06, rising to $1.6 billion by 2009-10. That will represent a 39 per cent increase compared to the

2004-05 funding base.

This is a historic, multi-year investment in postsecondary education—the largest in 40 years. The Province expects that this investment will yield the largest improvements in 40 years.

It is an essential investment—one that will translate into a competitive advantage, economic growth, and a higher standard of living for Ontario. The brains and know-how of a skilled workforce are the competitive edge of the 21st century. Ontario requires a postsecondary education and training system that is among the best in the world.

With the Reaching Higher investments, the people of Ontario will see improved access and quality in postsecondary education, better facilities, and postsecondary institutions will be held accountable for accomplishing these objectives.

The Reaching Higher plan will deliver:

Access

- More student financial assistance.
- Increased enrolment in colleges and undergraduate university programs.
- Increased graduate student enrolment.
- Increased enrolment in medical schools.
- Increased apprenticeship positions.
- More new Canadians who are better able to contribute their skills to Ontario's economy.

Quality

- More faculty.
- More time for faculty to spend with their students.
- More innovative research.
- Better resources and improved pathways for students.

Accountability

- A proposed new Higher Education Quality Council of Ontario charged with identifying performance targets for the postsecondary education system.
- Agreements between the government and postsecondary institutions that ensure that these results are achieved. Funding will be contingent upon these results.

The government's goals are:

- **Access**—enhanced student financial assistance, increased enrolments, and expanded opportunities for aboriginals, francophones, new Canadians, persons with disabilities and "first generation" students whose parents did not attend postsecondary institutions.
- **Quality**—the postsecondary education and training system will be one that achieves the highest standards in teaching, research and student learning experience, resulting in the skills and innovation that will support economic growth.

- **Accountability**—targets and measures will be set to monitor the quality and performance of the postsecondary education sector.

To date, the government has:

- frozen tuition fees for 2004-05 and compensated colleges and universities for the revenue loss;
- expanded access to student financial assistance, benefiting over 50,000 students;
- increased funding for nursing education by $15 million in 2004-05, including funding to enhance the qualifications of nursing faculty;
- introduced a new Apprenticeship Training Tax Credit of up to $5,000 for each of the first three years of an eligible apprenticeship; and
- provided additional support for apprenticeships, at-risk youth and bridge training for new Canadians.

The next phase of the plan for Access is as follows:

- Improve student financial assistance so that 135,000 low- and middle-income students benefit from enhancements in 2005-06. This includes 32,000 students who will benefit from a new low-income tuition grant. The grant will provide up to the lesser of $6,000 or 100 per cent of their tuition for 16,000 first-year dependent students in co-operation with the federal government and the Canada Millennium Scholarship Foundation. To further enhance student support, Ontario will fund a grant of up to the lesser of $3,000 or 50 per cent of their tuition for 16,000 second-year dependent students.
- Continue tuition freeze for 2005-06 and begin work immediately with students, colleges and universities on a new tuition framework to be in place by September 2006.
- Significantly increase enrolments at colleges and universities.
- Improve access and success of under-represented groups including francophones, aboriginals, persons with disabilities and students whose parents did not attend postsecondary institutions.
- Substantially expand graduate education by 12,000 full-time students by 2007-08 and 14,000 students by 2009-10.
- Expand new first-year medical education spaces by 15 per cent.
- Increase the number of new annual entrants into apprenticeship by 7,000, reaching 26,000 new entrants in total by 2007-08.
- Increase the number of internationally trained people qualified to work in Ontario.

The next phase of the plan for Quality is as follows:

- Increase faculty at colleges and universities to accommodate higher enrolment and improve student success.
- Improve student experience through better student/faculty interaction and learning support systems.
- Achieve higher student retention and completion rates.
- Improve pathways for students and increase collaboration between Ontario colleges and universities.

The next phase of the plan for Accountability is as follows:

- Improve system performance and result measures, including quality and access, through a proposed new Higher Education Quality Council of Ontario and new bilateral performance agreements with postsecondary institutions.
- Improve public reporting of system-wide performance and results.

Reaching Higher Investments

By 2009-10, Ontario will provide $6.2 billion in new cumulative investments for postsecondary education and training through the Reaching Higher plan. By 2009-10, new investments will rise to $1.6 billion, a 39 per cent increase compared to the 2004-05 funding base.

As the new plan is implemented, Ontario needs a strong commitment from all partners: the federal government, parents and students, colleges and universities, employers and workers, and alumni. Strong partnerships will mean that results will be achieved faster.

Reaching Higher: New Ongoing Operating Investments*
($ Millions)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Cumulative Total
Student Financial Assistance	150	192	241	282	314	358	1,537
Operating Grants to Colleges and Universities	50	447	732	932	958	1,156	4,275
Training and Apprenticeship and Other Initiatives	-	44	62	86	87	87	366
Total New Investment	**200**	**683**	**1,035**	**1,300**	**1,359**	**1,601**	**6,178**

* Increase over 2004-05 base funding, which is the 2004-05 Interim excluding $200 million in expenditures provided for the Ontario Student Opportunities Trust Fund, endowments for graduate fellowships and faculty research chairs, and college stabilization.

Source: Ontario Ministry of Finance.

To initiate the plan in 2004-05, the Province provided $200 million in operating funding:

- $100 million to create endowments at universities that will provide fellowships for outstanding graduate students;
- $50 million for the Ontario Student Opportunities Trust Fund (OSOTF) to match private-sector donations for student financial assistance;
- $25 million to help stabilize colleges experiencing financial difficulties; and
- $25 million to endow new faculty chairs for research and improve graduate education.

In addition, the Province provided $250 million in one-time capital funding in 2004-05:

- $200 million to begin needed repairs to college and university buildings; and
- $50 million to improve college equipment.

Student Financial Assistance

Ontario is taking immediate steps to ensure that all eligible students can afford postsecondary education.

The government will:

- provide $192 million in new investments in 2005-06 to enhance student financial assistance. By 2009-10, new investments for financial assistance will reach $358 million, more than double the base funding provided in 2004-05. Student loan programs will be enhanced and new grants will be made available;
- as a first step, join with the federal government to expand eligibility for student loans and increase Ontario weekly loan amounts from $110 to $140 for single students. Ontario will also reduce how much money middle-income parents are expected to contribute to their children's education, expand interest relief and recognize computer costs in student loan needs assessments;
- establish a new Millennium-Ontario Access Grant through an agreement with the Canada Millennium Scholarship Foundation to enhance access for low-income students. In co-operation with the Foundation, 16,000 eligible first-year students will receive grants of up to $3,000. When combined with the new low-income grant being provided by the federal government, eligible first-year students could receive a total grant of up to the lesser of $6,000 or 100 per cent of their tuition. Ontario will further enhance student financial assistance by funding a low-income tuition grant of up to the lesser of $3,000 or 50 per cent of their tuition for 16,000 eligible second-year students;
- implement these various student assistance program changes in the fall of 2005, benefiting approximately 135,000 low- and middle-income students this year;
- provide $50 million annually to match funds raised by colleges and universities to establish endowments for student financial assistance. A new Ontario Trust for Student Support will be based on an allocation method that takes into consideration the limited fundraising capacity of smaller institutions; and

- continue to work with the federal government to broaden and expand student assistance in 2006-07 and beyond.

Enhanced Opportunity

The government will support new strategies to provide greater opportunity for those who have not traditionally benefited from postsecondary education.

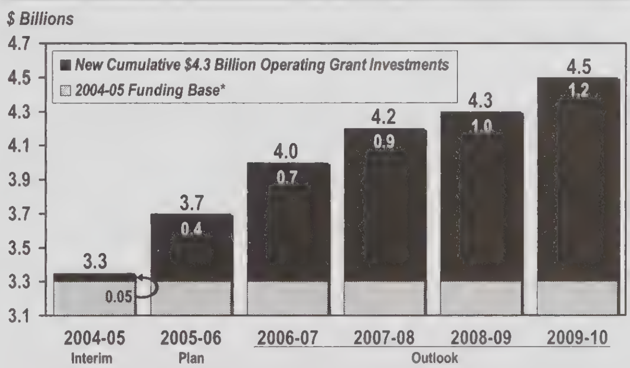
- $10 million in 2005-06, rising to $55 million by 2009-10, will be provided to institutions to undertake new programs and outreach in order to improve participation in postsecondary education by all under-represented groups including francophones, aboriginals, persons with disabilities and those who would be the first in their families to attend college or university. Part of this funding will be used to help French-language colleges and bilingual universities foster a more vibrant francophone postsecondary education community in Ontario.
- Northern and rural colleges will be provided with $20 million in new funding by 2007-08 to increase access to high-quality programs in their communities.
- A new community-based nursing education program in northern Ontario will be piloted.
- A new strategy to attract more international students and to encourage study abroad for Ontario students will be implemented.

New Funding for Postsecondary Institutions

In this Budget, the government is providing significant multi-year increases to operating grants to colleges and universities. By 2009-10, the Province will make new cumulative investments of $4.3 billion to improve postsecondary education. To ensure that these investments achieve measurable results, the Province will work with colleges and universities to establish performance measures, including targets for hiring new faculty, accommodating higher enrolments and improving student success.

College and university operating grants in 2005-06 will be $447 million or 14 per cent higher than 2004-05 base funding. In 2009-10, new ongoing investments will reach $1.2 billion, or 35 per cent higher than base funding in 2004-05.

Operating Grants to Colleges and Universities



* Excludes $50 million in one-time expenditures for college stabilization and faculty research chairs.
Source: Ontario Ministry of Finance.

These new operating investments in colleges and universities will fund enrolment growth, expand graduate education and create new faculty positions. The investments will result in improvements to the student learning experience by increasing contact between faculty and students, and by providing better student services, and will result in higher quality research. Overall, quality will improve. The

government's expectation is that this historic investment will not simply be used to enrich compensation packages within the system.

Key initiatives include:

- expanding graduate education to help make a place for double-cohort students and address faculty shortages through new investments of $220 million annually by 2009-10;
- increasing the number of new first-year spaces at medical schools by 15 per cent and improving the quality of medical education by providing $95 million in new funding;
- providing capital support to ensure that medical schools and graduate departments can accommodate the increased number of students;
- proposing to establish a Research Council of Ontario to advise on and co-ordinate research priorities and allocate funding based on these priorities; and
- working with postsecondary institutions to ensure that the student experience is enhanced.

Universities will also be able to apply for Ontario Strategic Infrastructure Financing Authority loans for investments that support their work as world-class educators and innovators.

Greater Accountability

The government's new investments will be tied to performance and results targets.

- Multi-year agreements between the government and institutions will set out, among other expectations, enrolment and quality improvement targets.
- The government proposes to establish a new arm's-length Higher Education Quality Council of Ontario that would take a lead role in supporting quality improvement in postsecondary education. The Council would undertake research on indicators and outcomes, advise on system-wide results, and report on system performance.
- The government proposes to make Ontario's universities subject to the provisions of the *Freedom of Information and Protection of Privacy Act* and to ensure that Ontario publicly funded postsecondary institutions are transparent and accountable to the people of Ontario while, at the same time, respecting academic freedom and competitiveness.

An Effective Partnership with the Federal Government Will Accelerate the Plan

The government is committed to its new plan for postsecondary education and training. A full and effective partnership with the federal government would allow the Province to move more quickly to implement the Reaching Higher plan. Ontario is the economic engine of Canada. Investments in postsecondary education are a vital part of Ontario's future economic growth, which will benefit all of Canada.

- Ontario could make faster progress in improving postsecondary education if the federal government responds positively to Ontario's call for a restoration of funding for postsecondary education. In addition, Ontario is asking the federal government to join with Ontario to enhance

student financial assistance and funding for research and graduate studies.

- Ontario also needs to establish immigration and labour-market agreements with the federal government. Through these agreements, new funding and transfers will support labour-market training and other services for new Canadians.

Creating a Responsive Training and Apprenticeship System

Ontario recognizes that a responsive training and apprenticeship system, including effective programs for new Canadians and at-risk youth, is another key element for success in today's global economy.

This Budget builds on current programs with new training investments that reinforce the government's priorities.

- An additional $17.5 million annually by 2007-08 to create more systematic and supported access to labour-market services for two priority client groups: new Canadians and prospective apprentices. New services will be part of the new One-Stop Training and Employment System, a more seamless and co-ordinated service delivery network currently being implemented, as announced in the 2004 Budget.
- $2.5 million per year to expand Ontario's current Bridge Training programs, supporting additional projects to assess competencies, and to provide training and work experience for skilled new Canadians.
- $4 million over the next two years for colleges to pilot improved processes and programs that will help new Canadian students better access college training.
- $1 million over two years to pilot programs with employers to help them better recognize and use the skills of new Canadians. The first pilot will support the Toronto Region Immigrant Employment Council (TRIEC) for outreach with employers in the Greater Toronto Area.

In order to protect the interests of students and set standards for quality, the government intends to introduce legislation that would, if enacted, enhance the regulation of the operations of private career colleges that offer vocational training to more than 35,000 students.

Reaching Higher Will Mean Tangible Benefits

The government is committed to achieving the goals of access, quality and accountability. This Budget provides new multi-year investments to achieve these goals. Working with all its partners, Ontario will offer higher education that will be among the best in the world. A skilled workforce will support continued economic strength in Ontario.

In conclusion, the Reaching Higher plan will result in tangible benefits:

- Doubling the funding available for student assistance by 2009-10, with 135,000 low- and middle-income students immediately benefiting this year from the new tuition grant, higher weekly loans and reduced parental contributions to student assistance, allowing students to reach higher.

- Significantly more college and university students enrolled and preparing for the jobs of tomorrow, creating the economic growth of tomorrow.
- Assured quality teaching and an improved student learning experience, which will be competitive with the best in the world.
- 14,000 more graduate students by 2009-10, creating knowledge and ideas for economic growth and ensuring Ontario's role as a North American leader in research and innovation.
- More doctors through a 15 per cent expansion of first-year medical education spaces.
- Thousands more new Canadians able to contribute their skills to Ontario's economy.

HEALTH: BETTER ACCESS TO BETTER CARE

Ontario's greatest asset is its people. And Ontarians' greatest asset is their health. The government's plan is to do more to help people stay healthy, to better care for them if they do become sick, and to do what is necessary to ensure medicare is sustained for generations to come.

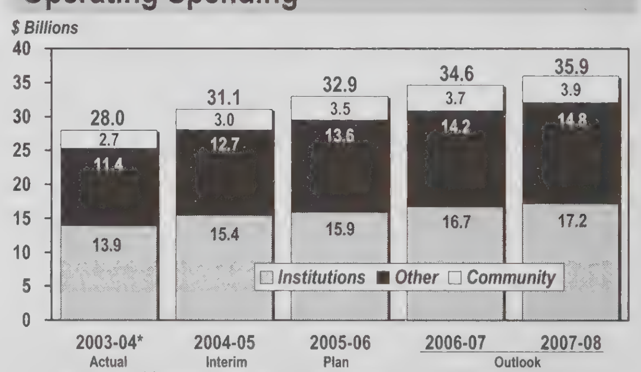
A publicly funded health care system defines what it is to be Canadian. It is one of the ways Canadians care for one another. But it is even more than that. It is a competitive advantage for Ontario—one that helps attract investment and jobs, especially in light of the soaring cost of private medical insurance that is often cited when job creation lags in the United States.

The 2004 Ontario Budget recognized the importance of health to Ontarians. It laid out a plan to:

- promote better health and prevent illness;
- improve access to doctors, nurses and other health professionals;
- shorten wait times for key services;
- modernize health infrastructure; and
- increase efficiency and accountability in the health care sector.

Progress is being made in all of these areas, and the 2005 Budget builds on this plan. By 2007-08, an additional $4.8 billion will be invested in health care programs and services than in 2004-05. But this Budget, like its predecessor, recognizes that money alone is not the answer. Fundamental change is needed to ensure that Ontarians' health needs can be met and the "medicare advantage" preserved.

Ministry of Health and Long-Term Care Operating Spending



* 2003-04 excludes SARS-related health costs and major one-time costs of $824 million.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

Change is needed because health care costs continue to grow at unsustainable rates. In fact, as Ontario's population grows and ages, and new medical advances are discovered and put into practice, health care costs continue to grow faster than the economy. That is why the government continues to balance the need to slow the rapid rate of growth in health care spending with the need for targeted investments in key service areas. It is critical to sustain medicare for future generations while, at the same time, ensuring its responsiveness to the needs of Ontarians today.

What follows is a step-by-step look at the progress made—and the next phase of the plan—for each of the goals first identified in the 2004 Budget.

Keeping Ontarians Healthy

The government's goal is to promote better health and prevent illness.

To date, the government has:

- added three new vaccines free of charge (for chicken pox, meningococcal meningitis and pneumococcal disease) to the recommended schedule of routine childhood immunizations. Last year, over 800,000 vaccinations were administered, saving families up to $600 per child;
- introduced legislation that, if passed, will prohibit smoking in all enclosed workplaces and public places in the province as of May 31, 2006;
- funded an ad campaign to motivate smokers to quit. Provided additional funding to the Smokers' Help line, run by the Ontario Division of the Canadian Cancer Society, to expand their hours of service. Also created stupid.ca, an anti-smoking campaign created by youth, for youth;
- directed school boards to remove all junk food from vending machines in elementary schools to encourage young people to make healthy food choices;
- established ACTIVE2010, a program to help local and not-for-profit organizations provide and enhance opportunities for physical activity and community sport and recreation. As well, in the fall of 2004, Pause to Play was launched to encourage children and youth to make physical activity a regular part of their daily lives;
- supporting healthy, active lifestyles by reconnecting school gyms and fields to neighbourhood non-profit groups through an annual investment of $20 million to cover the incremental costs of community use of school facilities;
- increased the Provincial share of public health unit costs from 50 per cent in 2004 to 55 per cent in January 2005, rising to 65 per cent by January 2006 and to 75 per cent by January 2007, supporting the importance of these units in the Provincial health system and improving the management of infectious disease outbreaks; and
- launched Operation Health Protection, a three-year action plan that contains the most comprehensive changes to the public health system since the 1980s. This action plan will review the governance and accountability structure of public health units; increase the number of medical and scientific personnel; establish a committee of experts to provide advice to the Chief Medical Officer of Health on prevention, surveillance and control of infectious diseases in Ontario; and has established new communications and information technology (IT) capabilities within public health units.

The next phase of the plan is as follows:

- Improving access to community support services for seniors, frail elderly people and people with physical disabilities. By 2007-08, over 232,000 Ontarians will receive support in their community. A co-ordinated and integrated support system will allow people to continue to live in their communities rather than having to be admitted to institutions.
- Expanding the capacity of the mental health system to provide counselling, crisis response and early intervention for almost 79,000 more individuals in need of mental health services in the community by 2007-08.
- Enabling health care providers in hospital emergency departments to electronically access the drug history records of Ontario's drug program recipients by 2007-08. This electronic access will help to speed up the process of diagnosis and treatments, as well as reduce the incidence of drug-related adverse medical reactions and unnecessary hospital admissions.
- Initiating a new patient drug information program among pharmacists, doctors and patients to improve management of patients' medications.

Improving Access

The government's goal is to improve access to doctors, nurses and other health professionals.

To date, the government has:

- approved 52 Family Health Teams (FHTs) and three networks of FHTs to improve access to primary care for over one million Ontarians in 47 communities. This exceeds the original target for this spring, which had been 45 FHTs. Family Health Teams include doctors, nurses and other health professionals working together to keep patients healthy and provide comprehensive care when they need it;
- begun expansion of primary care services to 350,000 Ontarians through Ontario's 54 Community Health Centres by investing an additional $30 million over two years from 2003-04 to 2005-06;
- provided $12 million in 2004-05, growing to $26 million in 2005-06, to train up to 200 International Medical Graduates (IMG) to increase the number of doctors in Ontario and conducted the largest clinical assessment of foreign-trained physicians ever held in Canada. Through IMG-Ontario, an assessment, training and placement centre, internationally trained doctors can become qualified to practise medicine in Ontario;
- signed a new four-year agreement with the Ontario Medical Association that will help bring more doctors to underserviced communities; encourage physicians to care for additional patients; provide more preventive care such as helping Ontarians quit smoking, screening for cancer, and managing chronic diseases, including diabetes; support physician services to reduce wait times for cancer care, cardiac care, hip and knee replacements and cataract surgeries; and promote more efficient use of hospital resources;
- funded more than 3,000 new nursing positions in hospitals, long-term care homes, home care and community care agencies in 2004-05;
- funded initiatives to improve working conditions and educational and professional opportunities for nurses including $60 million to purchase 11,000 bed lifts to help reduce on-the-job injuries;

$10 million for continuing education programs delivered by nursing associations; and $10 million over four years to increase the number of fully qualified faculty available in postsecondary institutions to educate tomorrow's nurses;

- improved health care in northern and remote communities by investing $14 million in 2004-05 in telemedicine technology. With this funding, 28 new sites were opened, bringing the total number of hospital sites equipped with telemedicine technology to 168 sites across Ontario; and
- invested a record $1.3 billion in home care last year to provide services to almost 454,000 Ontarians, including services for an additional 21,400 acute care patients.

The next phase of the plan is as follows:

- Increase the number of Family Health Teams (FHTs) to 150 by 2007-08 to provide access to primary health care services for approximately 2.5 million Ontarians.
- Expand the number of first-year spaces at medical schools by 15 per cent and improve the quality of medical education through $95 million in funding through the Ministry of Training, Colleges and Universities. This is in addition to the 56 new medical students who will begin their training when the Northern Ontario School of Medicine opens in September 2005. At full capacity, the school will have 224 undergraduate and over 200 residency positions to accommodate graduate students each year.
- Create 14 Local Health Integration Networks (LHINs) to facilitate the delivery of health care services in Ontario. When fully implemented, it is proposed that the LHINs would plan, co-ordinate and fund local health care services in their areas, putting their patients' needs at the centre of their plans and aligning the resources of the network to support local health care priorities.
- Support end-of-life care services, including those in residential hospices, for 4,300 adults and children in their communities by investing an additional $39 million this year.

Shorter Wait Times

The government's goal is shorter wait times for key services.

To date, the government has:

- increased funded hours of operation on existing MRI machines and upgraded seven MRI machines and 27 CT scanners to yield an additional 33,000 or 14 per cent more MRI exams and capacity for a further 81,300 or eight per cent increase in CT scans in 2004-05;
- carried out an additional 5,380 surgical procedures in 2004-05, including 1,700 cancer surgeries, 1,680 or seven per cent more hip and knee joint replacement surgeries, and 2,000 or two per cent more cataract surgeries; and
- gathered wait-time and volume information last year pertaining to cataract surgery, hip and knee replacements, MRI/CT scans and selected cancer surgeries and cardiac procedures to establish a baseline against which progress will be measured.

The next phase of the plan is as follows:

- As Ontario's hospitals continue to play a key role in the health care system, funding will increase from $11.4 billion last year to $12.0 billion in 2005-06 and to $13.0 billion by 2007-08. The government is moving forward to further modernize the way hospitals are funded. For the first time, individual hospitals will receive service-based funding allocations for more than one year.
- Nine new or upgraded MRI machines will be operating by the end of 2005-06. When combined with funding for additional hours on existing machines, this will result in 53,200 or 19 per cent more MRI exams being performed this year.
- In 2005-06, hospitals will provide almost 2,900 more cancer surgeries, 14,000 or 13 per cent more cataract surgeries, almost 7,000 or eight per cent more cardiac procedures and over 4,300 or 16 per cent more hip and knee joint replacements than in 2004-05.
- A new Web site will provide Ontarians with information on key health care services. By the end of 2006, the Web site will have complete and regularly updated information on wait times for five key health service areas: hip and knee replacements, cataract surgery, cancer surgery, MRI/CT exams and selected cardiac procedures.
- With the help of experts in each of the key fields, targets will be established for acceptable wait times to ensure timely access to the five key services. As well, based on recommendations from expert panels, process standards and improvements to make hospitals more efficient in their delivery of key health services will be implemented.

Modernizing Health Infrastructure

The government's goal is to modernize Ontario's health infrastructure by updating equipment and expanding the capacity to cope with a growing and aging population.

To date, the government has:

- provided $61 million to hospitals in 2004-05 to help address infrastructure deficiencies and to maintain the current buildings in good condition; and
- accelerated 19 projects to expand and renew facilities and to carry out the planning and design work for regional cancer centres in Kingston and Ottawa through an investment of $184 million in 2004-05.

The next phase of the plan is as follows:

- Providing funding for new hospital projects over five years that will reduce wait times, provide better services in high growth areas, and modernize older hospitals.

Efficiency and Accountability

The government's goal is to increase efficiency and accountability, as the Province moves towards a health care system that is locally managed, streamlined, cost-effective and focused on results for patients.

To date, the government has:

- reached service-based performance management agreements with hospitals to help ensure that all hospitals achieve agreed-upon outcomes within allocated resources; and
- passed legislation to establish the new Ontario Health Quality Council to report annually to the public on results being achieved in the health care sector.

The next phase of the plan is as follows:

- Work with health care providers and the public to continue to find the best ways to allocate resources, and ensure that spending growth in the health care sector is affordable and delivers the outcomes patients deserve.
- Continue to press the federal government to provide a fair share of Canada Health Transfer cash funding to meet Ontario's needs.

INFRASTRUCTURE: BUILDING A BETTER TOMORROW

Ontario's economy depends on the strength of its people, and the people of Ontario depend on infrastructure that is modern, reliable, efficient and affordable. Children learn better in schools that are in good repair, and patients cope better in comfortable, up-to-date hospitals. Ontarians' health depends on water and sewer systems that keep them safe from illness. Commuters need reliable public transit and highway systems to travel from home to work. Businesses need transportation networks to get the resources required to produce goods and services, and to get goods and services to market, especially in an export-based economy.

Ontario's auto sector, for instance, works on a system of "just-in-time" deliveries of inventories. Instead of expensive warehousing, assembly plants depend on last-minute parts deliveries. For every minute of delay caused by gridlock on overused highways, productivity is threatened, and so are the jobs and prosperity that Ontarians and the Province depend upon.

Investments in infrastructure have been made over the past 10 years, but, too often, some of the biggest infrastructure needs have been put on hold. That must change. To ensure Ontarians can meet the demands of the 21st century, Ontario's infrastructure must be strengthened before too much of it is beyond repair.

The government is committed to a five-year, $30 billion infrastructure investment plan. This plan includes the Province's own gross capital investment over the next five years, capital funding provided to school boards through operating grants, funding provided through per-diem payments for long-term

care homes, funding provided to municipalities through the gas tax for public transit, cost-sharing by partners, and the value of projects that will be paid for over their useful lives.

In July 2004, the government released *Building a Better Tomorrow: An Infrastructure Planning, Financing and Procurement Framework for Ontario's Public Sector*, to support the development and implementation of the government's infrastructure investment strategy. The Framework sets out core principles that will be followed whenever the government is procuring any major capital project, including: the public interest must be paramount; value for money must be demonstrable; and processes must be fair, open and transparent.

Key Objectives

INFRASTRUCTURE PLAN:

Renewing Infrastructure

- Increasing investment to keep the highway system in a state of good repair in both southern and northern Ontario.
- Investment to begin to address the infrastructure deficit in schools and postsecondary institutions.
- New program introduced last year to provide regular funding to hospitals for upgrades and renewal.
- Upgrading municipal water and wastewater systems and developing a strategy to meet future investment needs.

Building New Infrastructure

- Funding new, expanded and upgraded hospitals, including many in rapidly growing areas of the province.
- New spaces in graduate schools and medical schools to accommodate the double cohort and expand the supply of doctors.
- Major, sustained investment in key transit services, including a 10-year plan to expand and renew GO Transit, five-year funding for the Toronto Transit Commission (TTC), and future funding for the Ottawa O-Train.
- New highway projects to improve access to border crossings and address highway congestion and safety concerns.
- Investing in the creation of 15,000 new affordable housing units; $300 million over four years for research infrastructure; and numerous new electricity projects.

Managing Better

- More emphasis on planning and design to ensure that infrastructure projects are well planned and meet future needs, including funding for planning work for transportation, hospital and justice projects.
- Examine ways to reduce the time required for the planning, design and approval of major transit expansion projects.

Furthermore, the government will look to fund capital assets over their service life, rather than funding them upfront as the project is built. This funding practice is consistent with how the government funds its investment in its own assets over each asset's useful life, and provides a more consistent basis for making capital decisions across the public sector.

This approach to infrastructure investment will allow the government to expand hospital and postsecondary infrastructure more quickly than would be possible using traditional funding by:

- spreading the costs of projects over the useful life of the asset; and
- avoiding cost overruns by shifting risk to the project contractor and establishing clear accountability.

The government is also investigating ways to encourage Ontario's pension plans to invest in building Ontario's infrastructure rather than investing Ontario's workers' money abroad.

The government will also review the existing condition of its infrastructure assets, to identify the repairs necessary to protect the service potential of these assets. The Province has recently announced grants to school boards to enable them to finance long-term borrowing for a major investment program to upgrade the condition of Ontario's schools.

The government has provided new support to municipalities to enable them to invest in their own infrastructure. This includes gas tax revenue estimated to be approximately $1.4 billion over the next five years to support capital investments in public transit. More details on the government's infrastructure plan are included in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth.*

The Province will continue to urge the federal government to make sustained financial investments in Ontario's infrastructure to support economic growth, key public services and sustainable development. The Province will also seek more flexibility from the federal government on cost sharing, so that the federal government contributes a larger share of funding for some projects.

Asset Review

The Province needs to find new ways of meeting its infrastructure priorities. As part of meeting this challenge, the Province is reviewing its existing investment in Provincial assets to ensure that they continue to serve the needs of the public. Any decisions made by the Province with respect to the strategic management of its assets will be guided by protecting the public interest, value for money and meeting government priorities.

It is never appropriate to sell assets to pay for ongoing operating expenses. Any net proceeds of sales of government assets will, therefore, be invested in priorities that are of lasting value. As a first priority, the proceeds of strategic asset management will be used to improve the condition of existing infrastructure and to provide new infrastructure.

Ontario Strategic Infrastructure Financing Authority (OSIFA)

The Ontario Strategic Infrastructure Financing Authority (OSIFA) is an innovative financing vehicle that provides Ontario's municipalities and other broader public-sector partners with access to low-cost and longer-term loans to renew and build critical public infrastructure. To date, OSIFA has committed to provide 166 municipalities with $2.1 billion in low-cost and longer-term loans for more than 1,000 local infrastructure projects such as local roads and bridges, and water and wastewater facilities. Additional details on these projects are provided in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth.* The municipalities participating in OSIFA's loan program are saving millions of dollars in interest charges and transaction fees over the life of their loans—savings that benefit local taxpayers. Beginning in 2005-06, the OSIFA loan program is being broadened so that loans will also be available to municipalities for investments in local culture, tourism and recreation infrastructure projects. Universities will also be able to apply for OSIFA loans

for investments that support their work as world-class educators and innovators. Energy conservation projects will be a key OSIFA priority for both the municipal and university sectors.

Responsible Fiscal Management

While the 2005 Budget outlines significant investments in key priority areas, it also provides a responsible plan to address the financial burden of the structural deficit. The government's fiscal plan takes important steps to balance the budget. The 2004-05 interim deficit is projected at $3.0 billion, $2.5 billion lower than the previous year and $3.1 billion lower than the 2004-05 projection in the 2004 Budget. Further details are included in Appendix 1, *Details on Ontario's Finances*. The Province's plan, which includes historic and long-term investments in postsecondary education, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Key objectives:

- Eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.
- Hold the line on spending in most areas—15 ministries' operating budgets in 2005-06 flatlined, declining or increasing at a rate less than inflation.

Key achievements to date include:

- 2004-05 interim deficit projected at $3.0 billion—$2.5 billion lower than the previous year and $3.1 billion lower than the 2004-05 projection in the 2004 Budget.
- Over half of the $750 million program review savings target set for 2007-08 in the 2004 Budget has been identified.

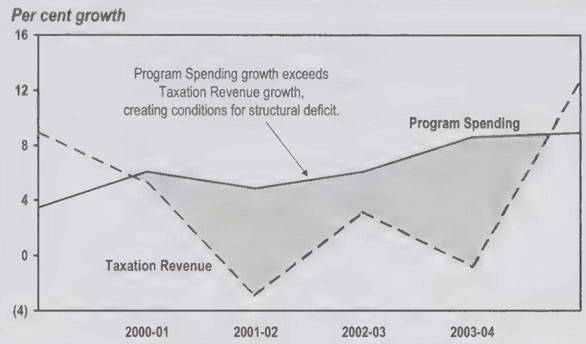
The 2005 Budget also provides for necessary investments in key areas such as publicly funded education, postsecondary education, training, health care and the economy, but in a balanced and responsible manner. Living within the Province's means and promoting efficient public services is key to addressing the structural deficit and ensuring that necessary programs and services are affordable and available in the long term.

Section II: Ontario's Fiscal Plan

Ontario's Underlying Structural Deficit

The creation of Ontario's structural deficit began in 2000-01, when program spending growth began to outpace growth in taxation revenue. In fact, between 2000-01 and 2003-04, spending on Provincial programs grew by 21 per cent while Provincial taxation revenue, which provides the bulk and most stable source of Provincial revenue, actually declined by 0.7 per cent. A slowing economy during this period, combined with the impact of tax cuts and a rapid escalation in program spending, culminated in a deficit of $5.5 billion in 2003-04. This was largely a structural deficit, which threatened to persist unless action was taken.

Creation of the Structural Deficit



Source: Ontario Ministry of Finance.

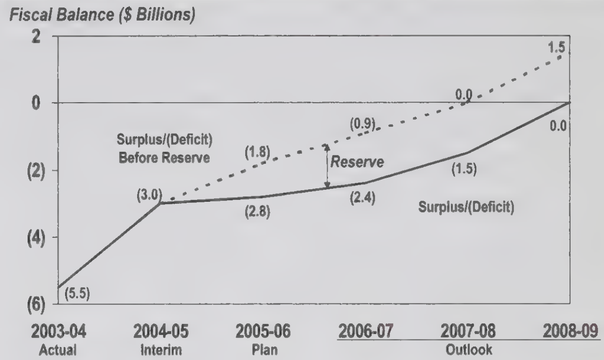
In response to this situation, the 2004 Budget Plan aimed to eliminate the deficit without destabilizing health care, education and other key public services by holding average annual growth in total Provincial program spending to less than the growth in taxation revenue over the medium term.

The 2005 Budget reaffirms the government's commitment to the fiscal principles originally outlined in the 2004 Budget. What has become clear over the past year, however, is that Ontario's social and infrastructure deficits cannot be eliminated without additional investments over the medium term. The government believes that years of neglect in these critical sectors must continue to be addressed, but in a fiscally responsible and balanced manner. The government's medium-term fiscal plan takes into account the additional necessary investments being made to improve Ontario's health care system, public schools and postsecondary education and training system. Through steadily declining deficit targets and strategic investments in the public infrastructure and services that people value, the medium-term fiscal plan will promote economic prosperity and ensure responsible management of the Province's finances, including the elimination of the deficit.

A Responsible and Disciplined Fiscal Plan

The Province's plan, which includes historic and long-term investments in postsecondary education, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Ontario's Fiscal Plan



Source: Ontario Ministry of Finance.

Eliminating the structural deficit is a key component to restore responsible management to Ontario's finances. However, the government will not force the achievement of a balanced budget at the expense of all other considerations or ignore the need to revitalize the Province's publicly funded school, postsecondary education, training and health care systems. Fiscally sustainable social programs that people value and that promote economic growth are the hallmarks of good governments.

However, the government cannot ignore the financial burden of the structural deficit either—discipline is still required. The fiscal plan in this Budget represents a disciplined and balanced approach to investing in the long-term viability of public services that people value most while modernizing the delivery of these services and ultimately returning the Province to fiscal stability.

Key Elements of the Fiscal Plan

This government introduced the *Fiscal Transparency and Accountability Act, 2004,* which requires any government that plans for a deficit to show how and when it will balance the Province's budget.

The key elements by which the government's fiscal plan will eliminate the deficit in a responsible way are as follows:

- Achieving a health care system that delivers high-quality, results-focused and patient-centred health care within a sustainable funding envelope over the medium term.
- Finding the remaining $343 million in program review savings required to meet the $750 million target for 2007-08 as set out in the 2004 Budget.
- Ensuring a sustainable revenue base to support the programs and services people value, through such measures as hiring additional service and enforcement staff for tax administration, and improving the management of the Province's revenue and accounts receivable.
- Maintaining cautious and prudent fiscal planning including an annual reserve.
- Making disciplined decisions that hold the line on spending in most areas—15 ministries' operating budgets flatlined, declining or increasing at a rate less than inflation.

The 2004 Ontario Budget indicated that in order to provide funding for priorities while at the same time balancing the budget, holding the line on spending in most other areas would be required. This Budget provides substantial new investments for postsecondary education and health care. At the same time, many ministries' operating budgets are either flatlined or declining. There are 15 ministries in 2005-06 that are growing at a rate less than inflation, which is expected to be 2.1 per cent in 2005.

Spending Held in Check—15 Ministries' Operating Budgets Flatlined, Declining or Increasing at a Rate Less Than Inflation
($ Millions)

	Interim 2004-05	Plan 2005-06	Per Cent Change
Agriculture and Food*	733	564	(23.1)
Attorney General	1,183	1,199	1.4
Community Safety and Correctional Services	1,741	1,753	0.7
Consumer and Business Services	201	178	(11.4)
Culture	295	275	(6.8)
Environment	310	314	1.3
Executive Offices	19	19	0.0
Finance—Own Account**	1,141	1,126	(1.3)
Intergovernmental Affairs	13	8	(38.5)
Management Board Secretariat***	687	469	(31.7)
Municipal Affairs and Housing	771	683	(11.4)
Native Affairs Secretariat	18	14	(22.2)
Natural Resources	485	492	1.4
Office of Francophone Affairs	4	4	0.0
Tourism and Recreation	184	163	(11.4)

* Excludes One-Time and Extraordinary Costs.

** Excludes the Community Reinvestment Fund/Ontario Municipal Partnership Fund, Community Reinvestment Fund One-Time Transition Funding, Interest on Debt and Power Purchases.

*** Excludes Retirement Benefits and Contingency Fund.

Source: Ontario Ministry of Finance.

KEY RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

Given the multi-year nature of the government's fiscal plan, there are a number of risks and cost drivers that could affect the way in which the plan is achieved.

The achievement of the government's fiscal plan is subject to economic risks. Ontario is part of an interconnected global economy and developments beyond its borders, particularly the strength of the U.S. economy, the Canadian dollar and oil prices, strongly influence the province's growth. Additional details on Ontario's economic risks are outlined in the Appendix to Paper B, *Ontario's Economic Outlook.*

A key cost driver within the Province's deficit outlook is the demand for funding in the health care sector that has been growing each year at unsustainable rates. Over the past five years, from 2000-01 to 2004-05, Ontario's health care operating spending has increased at an average annual rate of 8.2 per cent, about twice the rate of Ontario's nominal GDP growth. By contrast, taxation revenue growth has averaged only 2.9 per cent annually during this period. Only 10 years ago, total health care spending of $17.8 billion accounted for 38 per cent of total Provincial program spending. In 2005-06, the government will invest $32.9 billion in Ontario's health care system, amounting to 46 per cent of total program spending.

Growth in health care spending that exceeds growth in revenue can only "crowd out" available funding for other programs, services and investments, ultimately threatening the long-term economic growth potential of the Province. Health care expense must more closely align with the rates of growth in Provincial revenue to address the structural deficit. The government's medium-term fiscal plan is based on lowering the rate of growth in health care spending to be more in line with economic and revenue growth.

Maintaining fiscal sustainability can also be complicated by the uncertain or transitory nature of federal funding. For example, targeted federal wait-time funding will be reduced by $600 million nationally in 2008-09, although provinces will be expected to maintain the associated services. As well, total transfers to Ontario from the federal government will decline by more than $200 million in 2006-07. Similarly, Provincial investments in early learning and child care are contingent on the federal government providing nationwide funding on an ongoing and sustainable basis.

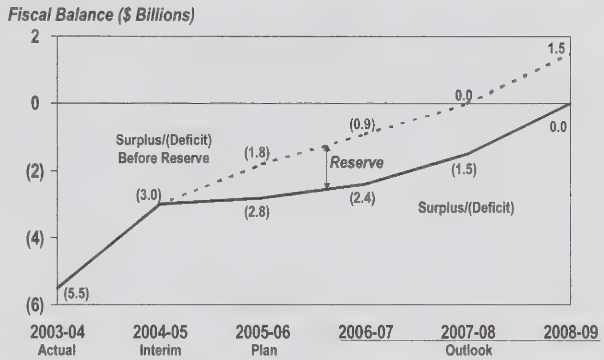
More details on potential risks, cost drivers and contingent liabilities are contained in Appendix 1, *Details on Ontario's Finances.*

Section III: Details of the Fiscal Plan—Ontario's Medium-Term Fiscal Outlook

MEDIUM-TERM FISCAL OUTLOOK

The *Fiscal Transparency and Accountability Act, 2004* requires the government to provide a medium-term fiscal outlook in the budget that includes, at a minimum, details on the current fiscal year plus the following two years. The 2005 Budget provides details of planned revenue and expense from 2005-06 through to the 2008-09 fiscal year. In addition, this section outlines the major changes to the medium-term fiscal outlook from the one outlined in the 2004 Budget. Further details are included in Appendix 1, *Details on Ontario's Finances*.

Medium-Term Deficit Reduction Plan



Source: Ontario Ministry of Finance.

The government's medium-term fiscal plan aims to reduce the Provincial deficit from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 by setting steadily declining deficit targets of $2.8 billion in 2005-06, $2.4 billion in 2006-07, $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Revenue: Details of Medium-Term Outlook

Total revenues are forecast to increase $4.6 billion or 5.9 per cent in 2005-06. Between 2005-06 and 2008-09, total revenue is projected to grow at an average annual rate of 4.1 per cent, from $81.7 billion in 2005-06 to $92.2 billion in 2008-09. The revenue outlook in this Budget includes no new taxes or tax increases.

- **Taxation Revenue** is forecast to increase $2.3 billion or 4.1 per cent in 2005-06 and by $8.9 billion between 2005-06 and 2008-09, with annual growth averaging 4.9 per cent. Overall taxation revenue growth is consistent with the 4.8 per cent average annual growth of nominal gross domestic product over the 2005 to 2008 period. The taxation revenue forecast is based on the detailed Ontario economic outlook presented in the Appendix to Paper B, *Ontario's Economic Outlook*, and includes the impact of all revenue measures announced to date, such as the tax administration effectiveness initiatives announced in last year's Budget.
  - The **Personal Income Tax** revenue forecast is based on the economic outlook that calls for rising employment, wages and incomes in Ontario.

- **Retail Sales Tax revenue** growth projections are based on the forecast for increased household and business spending.
- **Corporations Tax** is the most volatile of Ontario's tax revenue sources. These revenues are projected to decline by 2.8 per cent in 2005-06, and grow modestly afterwards.
- The increase in **Ontario Health Premium** revenues in 2005-06 is due to the program being in place for the entire 2005-06 fiscal year, whereas it was only in effect for three-quarters of 2004-05. The Ontario Health Premium revenue forecast is largely based on the forecast for population and personal income growth.
- **Other Taxation Revenue** forecasts are based on their most closely associated economic drivers. For example, the Employer Health Tax forecast reflects the Ontario wages and salaries projection and the Land Transfer Tax forecast is consistent with the housing market outlook.

♦ **Transfers from the Government of Canada** are forecast to increase by $1.1 billion or 9.6 per cent in 2005-06, and by $0.8 billion between 2005-06 and 2008-09, with annual growth averaging 2.0 per cent. This forecast is based on current federal-provincial agreements, funding commitments and formulas for major health and social transfers. The outlook includes the increased health care funding arising from the September 2004 First Ministers' health agreement of $1.2 billion in 2005-06, $1.3 billion in 2006-07 and 2007-08, and the commitment to increase certain health transfers by six per cent per year thereafter until 2013-14. Additional Early Learning and Child Care funding announced in the 2005 federal budget of $0.3 billion in 2005-06 and 2006-07 and $0.5 billion per year thereafter until 2009-10 is included in the forecast. The decline in revenues in 2006-07 compared to 2005-06 is primarily due to the final revenue in 2005-06 from past federal Canada Health and Social Transfer Supplements and Medical Equipment Trust Funds.

♦ **Income from Government Enterprises** is forecast to increase by $0.5 billion or 14.4 per cent in 2005-06 and remain fairly flat between 2005-06 and 2008-09, with an average annual growth rate of 0.4 per cent. This forecast is based on information provided by business enterprises. Revenue increases in 2005-06 and 2006-07 are mainly due to projected increases in Ontario Power Generation Inc. (OPG) net income arising from the government's electricity reforms included in the *Electricity Restructuring Act, 2004*, including fair and stable prices for electricity provided by OPG. The decline in revenue in subsequent years is a result of a decline in OPG net income, which reflects the government's commitment to close coal-fired generating plants. Liquor Control Board of Ontario net income is forecast to rise over the forecast period based on increasing sales. Ontario Lottery and Gaming Corporation net income remains fairly flat over the forecast period due to continued competitive pressures on border casinos, and the expected continued strength of the Canadian dollar against the U.S. dollar.

♦ **Other Non-Tax Revenue** is forecast to increase $0.6 billion or 10.3 per cent in 2005-06 and by $0.7 billion between 2005-06 and 2008-09, with annual growth averaging 3.5 per cent. Other Non-Tax Revenue includes a variety of revenue sources, such as reimbursements to the Province for services; government licence, permit and other fees; revenue from sales and rentals; and Crown resource royalty payments to the Province. These revenues tend to be primarily influenced by demographic factors and revenue policies, but some cyclical factors are present such as royalties from Crown timber. Most of the revenue growth in 2005-06 is due to electricity reforms included in the *Electricity Restructuring Act, 2004*, which are expected to increase revenues from the sale

of electricity purchased from non-utility generators. The outlook includes roughly $0.4 billion per year in revenues arising from amortizing the elimination of the non-utility generator power purchase agreement liability over time. Improved management of revenue and accounts receivable is also expected to boost non-tax revenues over the forecast period.

Expense: Details of Medium-Term Outlook

Over the medium term, total expense will rise from $83.5 billion in 2005-06 to $90.7 billion in 2008-09, an increase of $7.2 billion. Annual growth in total expense will average 2.8 per cent over this period, down from the 4.2 per cent growth rate projected for 2005-06.

A key part of the strategy to eliminate the structural deficit will be a disciplined approach to containing the growth in program spending to rates below that of taxation revenue. This Budget projects that between 2005-06 and 2008-09, program spending will grow by 3.1 per cent on average each year, much lower than the 4.9 per cent average annual growth in taxation revenue.

- **Health care** operating spending will grow by 5.9 per cent, or $1.8 billion, in 2005-06. Between 2005-06 and 2008-09, health care operating spending will increase by a total of $4.4 billion. In keeping with the government's change strategy, this funding will focus on promoting wellness, providing greater access to primary care, and reducing wait times for MRI/CT scans, cancer care, cataract and cardiac procedures, and hip and knee replacements.
- **Education** spending will grow by $0.7 billion in 2005-06 and by $1.2 billion between 2005-06 and 2008-09, reflecting the government's commitment to stabilize Ontario's education system, reduce elementary classroom sizes and improve student achievement.
- **Training, Colleges and Universities** will receive $4.8 billion in 2005-06, growing to $5.5 billion by 2008-09 to implement the Reaching Higher plan to increase access to quality postsecondary education and training.
- **Children's and Social Services** will receive an additional $0.5 billion in 2005-06, with a total operating budget growing to $10.3 billion by 2008-09, mainly to implement Best Start, contingent on federal funding for child care, and to renew the emergency energy assistance fund for low-income households. This increase will also allow the government to flow through incremental increases to the federal National Child Benefit Supplement to social assistance recipients for another year, delivering an additional $28 million in benefits in 2005-06.
- **Justice** sector spending will be maintained at approximately the 2004-05 funding level of $2.9 billion over the medium term.
- **Other Programs** will decline by $0.2 billion in 2005-06 and be held to 1.0 per cent average annual growth over the medium term, with most ministries' operating budgets flatlined or declining.

Medium-Term Fiscal Plan and Outlook
($ Billions)

	Interim	Plan	Outlook		
	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue					
Taxation Revenue					
Personal Income Tax	19.1	20.0	21.3	22.7	24.3
Retail Sales Tax	14.9	15.5	16.5	17.3	18.2
Corporations Tax	9.5	9.2	9.4	9.6	9.8
Ontario Health Premium	1.7	2.4	2.5	2.7	2.8
All Other Taxes	10.2	10.6	10.9	11.2	11.6
Total Taxation Revenue	55.5	57.7	60.6	63.4	66.7
Government of Canada	12.0	13.2	12.9	13.6	14.0
Income from Government Enterprises	3.5	4.0	4.2	4.1	4.1
Other Non-Tax Revenue	6.1	6.8	7.0	7.3	7.5
Total Revenue	**77.1**	**81.7**	**84.8**	**88.5**	**92.2**
Expense					
Programs					
Health Care	31.1	32.9	34.6	35.9	37.4
Education (excludes Teachers' Pension Plan)	10.5	11.3	11.7	12.2	12.4
Training, Colleges and Universities	4.3	4.8	5.1	5.4	5.5
Children's and Social Services	9.2	9.8	10.0	10.2	10.3
Justice	2.9	3.0	2.9	2.8	2.8
Other Programs	9.5	9.3	9.0	9.5	9.6
Total Programs	**67.6**	**71.0**	**73.3**	**75.9**	**77.9**
Capital	2.9	2.7	2.5	2.1	2.1
Interest on Debt	9.6	9.8	10.0	10.4	10.7
Total Expense	**80.1**	**83.5**	**85.7**	**88.5**	**90.7**
Surplus/(Deficit) Before Reserve	**(3.0)**	**(1.8)**	**(0.9)**	**0.0**	**1.5**
Reserve	**-**	**1.0**	**1.5**	**1.5**	**1.5**
Surplus/(Deficit)	**(3.0)**	**(2.8)**	**(2.4)**	**(1.5)**	**0.0**

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

Capital investment will be $2.7 billion in 2005-06, $2.5 billion in 2006-07, and $2.1 billion in 2007-08 and 2008-09. This level of capital investment will support a five-year, $30 billion infrastructure plan. Planned levels of capital investment may be supplemented from the proceeds of strategic asset management initiatives.

Interest on debt costs are forecast to grow by $0.9 billion between 2005-06 and 2008-09, reflecting the government's deficit targets and professional and cost-effective debt management. In 2005-06, interest on debt costs will amount to roughly 12 per cent of total Provincial revenue and remain there until 2008-09.

Fiscal Prudence

In addition to applying a disciplined approach to balancing strategic investments in key priority areas with a plan to eliminate the deficit, the government's medium-term fiscal plan also includes prudence in recognition of the risks inherent in any fiscal and economic forecast. As a result, reserves of $1.5 billion in 2006-07 and beyond have been included to protect against such unforeseen and adverse changes in the economic and fiscal outlook. These reserves are $0.5 billion higher than the $1.0 billion reserve included in 2005-06 to better reflect the risks and uncertain nature of medium-term fiscal projections. These reserves are also over and above the prudence built into the economic outlook on which the revenue projections for the Province are based.

The deficit will be eliminated no later than 2008-09, and a balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Key Changes Since the 2004 Ontario Budget

In the past year, since the release of the 2004 Ontario Budget, a number of key changes have occurred that have had an impact on the Province's fiscal outlook. These include changes in the medium-term economic outlook, ongoing pressures in health care and the development of a plan to revitalize Ontario's postsecondary education system as provided for in this Budget.

The following table provides an overview of the key changes to the medium-term fiscal outlook since the release of the 2004 Ontario Budget.

Impact of Key Changes to the Medium-Term Deficit Targets
($ Billions)

	Plan	Outlook	
	2005-06	2006-07	2007-08
Surplus/(Deficit) as per 2004 Budget	**(2.1)**	**(1.5)**	**0.0**
Key Revenue Changes Since 2004 Budget:			
Taxation Revenue Changes			
Higher 2004-05 Taxation Revenue Base	1.1	1.2	1.3
Economic Growth Forecast	(1.0)	(1.1)	(1.3)
Revenue Initiatives	(0.1)	(0.1)	(0.1)
Net Taxation Revenue Change	0.1	-	(0.1)
First Ministers' Health Agreement	1.2	1.3	1.3
Additional Federal Early Learning and Child Care Funding	0.3	0.3	0.5
Other Revenue Changes	0.3	0.6	0.8
Total Revenue Changes	1.8	2.3	2.4
Key Expense Changes Since 2004 Budget:			
Postsecondary Education and Training	0.5	0.8	1.0
Additional Health Care Investments	2.1	2.7	3.1
Additional Education Investments (excludes Teachers' Pension Plan)	-	-	0.2
New Investments in Early Learning and Child Care*	0.3	0.3	0.5
All Other Expense Changes (Net)*	1.2	0.6	0.3
Interest on Debt	(1.0)	(1.1)	(1.0)
Total Expense Changes	3.0	3.2	3.9
Change in Reserve	(0.5)	-	-
Total Changes Since 2004 Budget	(0.7)	(0.9)	(1.5)
2005 Budget Surplus/(Deficit)	**(2.8)**	**(2.4)**	**(1.5)**
Reserve	1.0	1.5	1.5
2005 Budget Surplus/(Deficit) Before Reserve	**(1.8)**	**(0.9)**	**0.0**

* Includes new operating and capital expense.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The 2004 Budget projected medium-term deficit targets of $2.1 billion in 2005-06, $1.5 billion in 2006-07 and a balanced budget in 2007-08.

Taking into account key revenue and expense changes since the 2004 Budget, including the initiatives announced as part of this Budget, the Provincial deficit is projected to decline from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 to $2.8 billion in 2005-06, $2.4 billion in 2006-07, $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Total revenue is higher throughout the medium term than originally projected in the 2004 Budget, primarily due to higher transfers from the Government of Canada and other non-taxation revenues. Major changes include:

- Higher **2004-05 taxation revenues**, primarily Corporations Tax revenues, resulting in a higher base upon which growth is applied, increasing the taxation revenue forecast from 2005-06 onwards.
- The current **economic growth forecast**—notably slower Ontario nominal gross domestic product (GDP) growth in 2005 (1.1 percentage points lower) and 2006 (0.6 percentage points lower)—has reduced the taxation revenue outlook from 2005-06 onwards.
- **Revenue initiatives** taken since the 2004 Budget (see Paper C, *Details of Revenue Measures*) have reduced the revenue outlook by $0.1 billion per year.
- The **net change in the taxation revenue** outlook, taking into account the higher 2004-05 revenue base, slower economic growth forecast and revenue initiatives, is a slightly higher level of revenues in 2005-06 ($0.1 billion), virtually no change in 2006-07 and a slight decrease in 2007-08 ($0.1 billion).
- The September 2004 **First Ministers' health agreement** increased revenues by $1.2 billion in 2005-06 and $1.3 billion in 2006-07 and 2007-08.
- Additional **early learning and child care** funding announced in the 2005 federal budget will increase revenues by $0.3 billion in 2005-06 and 2006-07, and by $0.5 billion in 2007-08.
- **Other revenue** changes mainly reflect amortizing the elimination of the non-utility generator power purchase agreement liability over time and improved management of non-tax revenues.

These increases in total revenue are offset by additional investments made in key Provincial programs, such as publicly funded education, postsecondary education and health care. While the government would have preferred to respond more quickly to the needs of the postsecondary education sector and infrastructure, the government chose to balance these required investments with disciplined fiscal planning in order to ensure responsible management of the Province's finances.

New planned investments since the 2004 Budget include:

- Additional funding to implement the **Reaching Higher plan** to enhance student financial assistance and improve access to quality postsecondary education and training.
- **Total health care operating spending** will be $3.1 billion higher in 2007-08 compared to what was projected in the 2004 Budget, largely as a result of the additional federal transfers arising from the September 2004 First Ministers' health agreement and the incremental funding for health

care announced as part of this Budget—for a total cumulative increase of $7.9 billion over three years.

- An additional $0.2 billion is being invested in 2007-08, beyond what was outlined in the 2004 Budget, to support fully the government's plan to revitalize **Ontario's publicly funded education system**. This investment will ensure the implementation of the government's goals for student achievement.
- An additional investment of $0.3 billion in 2005-06, growing to $0.5 billion by 2007-08, contingent on federal support, to provide the Province with revenue to implement the **Best Start early learning and child care initiative**.
- An additional $2.0 billion in spending will be provided to **other sectors** over the period from 2005-06 to 2007-08, including social and other programs that support various economic sectors of the province.

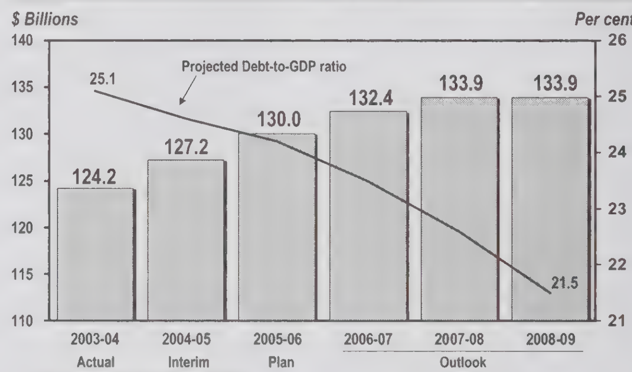
As a result of a $3.1 billion improvement in the forecast deficit for 2004-05 from $6.1 billion at the time of the 2004 Budget to the interim outlook of $3.0 billion in the 2005 Budget, forecast interest on debt costs are considerably lower over the medium term. These lower interest on debt costs are also the result of lower-than-forecast interest rates, and continued professional and cost-effective debt management.

In 2005-06, the reserve was also decreased by $0.5 billion from the $1.5 billion included in the 2004 Budget to its current level of $1.0 billion, the typical amount of caution included in the current budget year.

PRUDENT DEBT-TO-GDP RATIOS

Another key component of the government's medium-term fiscal plan to restore responsible fiscal management to Ontario is the commitment to maintain a prudent level of Provincial debt (defined as accumulated deficit) relative to the size of Ontario's economy as measured by nominal gross domestic product (GDP). Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges "crowd out" funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term and intergenerational in focus to ensure that future generations are not burdened with the cost of current overconsumption or inefficient delivery of government services.

Ontario's Debt* and Projected Debt-to-GDP Ratio



* Debt is defined as accumulated deficit.
Source: Ontario Ministry of Finance.

Consistent with the medium-term fiscal plan contained in this Budget, the Province's debt-to-GDP ratio is projected to decline from 25.1 per cent in 2003-04 to 21.5 per cent by 2008-09.

$23 Billion Gap

The Government of Ontario as well as third parties such as CIBC World Markets have identified a $23 billion gap between the amount Ontarians pay to the federal government in taxes and the amount they receive in federal programs and services.

The Province's determination to engage the federal government in addressing this fiscal gap is about investing in Ontario's economy. It is about a stronger Ontario for a stronger Canada. It is not about balancing Ontario's books more quickly than this Budget's fiscal plan projects.

Section IV: Making Progress: Modernizing Government

The Ontario Government has been recognized as a leading-edge public administration, due to its ability to understand and respond to the needs of the population. Ontarians expect a great deal from their government and the government embraces this challenge. They expect the government to be focused on priorities, achieve the results that matter most to them, and be open, transparent and accountable in doing so. In addition, they expect programs and services to be well managed so that they are receiving excellent value for their tax dollars.

The government is constantly looking at ways to improve programs and services to ensure Ontarians receive the best return on their investment in public services.

At the same time, the Province needs to live within its means. The 2004 Budget included a plan to undertake a comprehensive review of the programs that the government delivers in order to ensure the long-term fiscal viability of the programs that matter most to Ontarians. This review process represents a disciplined effort to align medium-term budgeting with priorities and results. The government's focus is on modernizing and changing public programs and services to achieve long-term, cost-effective results, and to invest in and protect priority services such as health care and education.

The government's modernization plan is designed to achieve the following three objectives:

- **Making progress on program review savings targets**—achieve savings of $750 million in 2007-08.
- **Creating more efficient government**—provide higher-quality services that are delivered in an efficient and effective manner.
- **Controlling long-term costs**—meet growing public demands for improved health care, education and other key services at an affordable cost that is fiscally sustainable in the long run.

Making Progress on Program Review Savings Target

In just one year, the government has implemented plans designed to achieve over half of the $750 million program review savings target for 2007-08, as set out in the 2004 Budget. The majority of these savings are from administrative and back-office services. Achieving this savings target is an important component of the government's plan to ensure long-term responsible management of the Province's finances.

Of the $750 million program review savings target for 2007-08, $350 million has been found in direct program savings and a further $57 million has been found through more efficient management of the Province's revenues.

Major areas of program savings by 2007-08 include the following:

- Overhauling the government's internal transactions and business support services, to improve processes and streamline purchasing practices, to reduce total procurement costs by 10 per cent by 2007-08 and to generate annual savings of $200 million when fully implemented. One example is the re-tendering of the government's contract for courier services, which will save approximately $2.5 million on courier charges alone.
- Helping government ministries trim their accommodation costs using a strategy that better aligns real estate needs with government priorities will save $50 million annually by 2007-08. This will be accomplished, for example, through improved management of realty assets, reduced space standards, and the retrofitting of government buildings to reduce energy consumption across the Ontario Public Service (OPS).
- Reducing information technology spending through better asset management, the consolidation of infrastructure and a rationalization of common services and applications across ministries, will save Ontarians $100 million annually by 2007-08. For example, greater sharing of information technology services and equipment across all ministries will lead to greater reuse of technology investments and a reduction in the overall number of computers required to deliver government programs and services. In addition, the number of computer servers throughout the OPS will be reduced by 20 to 40 per cent.

Other program review measures designed to improve the Province's business practices will generate a further $57 million in savings in 2007-08:

- These measures include better management of the Province's revenue and accounts receivable, increased use of electronic funds transfer, early payment discounts from suppliers, reductions in small value transactions, the use of new technologies and the implementation of new financial management mechanisms such as revolving accounts and special operating agencies.

A next step in modernizing government is the intent to update legislation governing the public service to embed the principles of accountability, transparency and delivery of results.

Delivering Efficient Government

Reviewing government spending on a comprehensive and ongoing basis is what Ontarians should demand and expect. It is through this sort of scrutiny that the government will be able to achieve a balanced budget while ensuring that resources are aligned with priorities and program operations are efficient.

Central to that plan is the reality that the government must focus on what it does best, such as developing policy and legislation, establishing program and service standards, and assuring quality service. The Province should only be in the business of direct-service delivery when it can provide a service more efficiently than anyone else or there is a clear public interest served.

It is within this context that a comprehensive review of Provincial expenses will continue. This includes looking for ways to improve service for Ontarians and ensure efficiency. The review will focus on large growing programs and identify options to ensure these programs remain affordable, and to continue to look for ways to simplify government by co-ordinating and harmonizing with other levels of government.

The government is also reviewing its central operations to ensure that they are refocused to support the government's modernization plan. This review will mean a smaller, more integrated and strategic centre of government.

Federal-Provincial Partnerships

The Province is also seeking to form new strategic partnerships with the federal government in an effort to reduce overlap and duplication and thereby promote more efficient and cost-effective programs and services. The Province needs the federal government to commit to these strategic partnerships in order to make progress in closing the federal funding gap and to promote the economic prosperity of Ontario. Key strategies include the following:

- Working with the federal government to design a single system for collecting federal and Ontario corporate taxes that, if implemented, would improve service delivery and provide savings to taxpayers while maintaining Ontario's fiscal position.
- Working with the federal government to develop a co-ordinated labour-market training system to ensure that programs meet the evolving needs of Ontarians and working towards a fair share for Ontario's unemployed in Employment Insurance funding. New federal funding to close the gap between Ontario and the rest of Canada will expand existing labour-market training services and enable the creation of a seamless, integrated system in Ontario.
- Negotiating with the federal government and working towards a fair share in federal funding for settlement, integration and adult language training services to improve outcomes for Ontario's new Canadians. A new partnership with the federal government, which improves service delivery and narrows the funding gap, will help Ontario leverage talented newcomers into jobs and investment.
- Working with the federal government to strengthen and improve Ontario's meat inspection system and move to an integrated and seamless inspection system. Harmonization of meat safety standards and inspection will create a more efficient and harmonized system across the province.

At present, over 80 per cent of Provincial program spending is in the form of transfer payments to individuals and organizations. In 2004-05, Provincial program spending amounted to $67.6 billion, of which the seven largest transfer payment programs and three largest ministry-delivered programs accounted for almost two-thirds of the total.

Major Areas of Provincial Program Spending

	2004-05 Interim	
	$ Billions	As a % of Total Program Spending
Seven Largest Transfer Payment Programs:		
Operation of Hospitals*	11.9	17.5
School Board Operating Grants	10.0	14.8
OHIP Payments to Physicians and Practitioners	7.4	11.0
Social Assistance Benefits	4.0	6.0
Drug Programs**	3.3	4.8
Colleges and University Operating Grants***	3.3	4.8
Long-Term Care Homes	2.5	3.7
Total—Seven Largest Transfer Payment Programs	42.3	62.6
Three Largest Ministry-Delivered Programs:		
Teachers' Pension Plan/Ontario Public Service Retirement Benefits	0.7	1.1
Ontario Provincial Police	0.7	1.1
Correctional Services	0.6	0.9
Total—Three Largest Ministry-Delivered Programs	2.1	3.1
Total—Seven Largest Transfer Payment Programs and Three Largest Ministry-Delivered Programs	**44.4**	**65.7**
All Other Program Spending	23.2	34.3
Total Program Spending	**67.6**	**100.0**

* Includes one-time funding of $0.4 billion provided to hospitals in 2004-05.

** Includes drug programs delivered by the Ministry of Health and Long-Term Care and Ministry of Community and Social Services.

*** Includes base operating grants and special-purpose grants provided to postsecondary institutions.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

The seven largest transfer payment programs and three largest ministry-delivered programs help support the important goals and priorities of the Province, such as:

- supporting the operation of 152 public hospital corporations on 228 sites, including over 40,000 nurses;
- supporting the public education of two million elementary and secondary school students provided by 120,000 teachers;
- paying for medical services provided by almost 22,000 physicians in Ontario, including 10,800 family doctors and 11,000 specialists;
- providing support to almost 194,000 Ontario Works cases and 226,000 Ontario Disability Support Program cases;
- funding for over 3,400 prescription drugs and drug products provided primarily to seniors, residents of long-term care homes and social assistance recipients;
- supporting over 300,000 full-time university students and more than 150,000 full-time college students through operating grants to colleges and universities;
- funding for more than 74,000 beds in almost 600 long-term care homes;
- co-sponsoring the pensions for teachers, and sponsoring retirement benefits (including pensions) for Ontario Public Service employees;
- providing funding for over 7,500 Ontario Provincial Police staff to support the enforcement of safety and security in Ontario's communities; and
- funding for 31 correctional institutions, which house on average almost 7,800 adult offenders at any given time, plus probation, parole and conditional sentence supervision of 56,000 adults serving their sentences in communities.

To make more efficient use of public tax dollars and help broader public-sector (BPS) partners meet their commitments, the Province is supporting modernization efforts across the BPS. The government will ensure that the BPS delivers vital programs and services in the most efficient and effective way and that taxpayers get the best value for the services they care about most.

The government will use this ongoing review to improve its performance in providing timely, efficient and effective service delivery and to seek strategic opportunities for better federal-provincial co-ordination to reduce overlap and duplication.

Controlling Long-Term Costs

Helping the government's BPS partners manage the rate of growth in their spending will also help refocus investment in public priorities over the long term.

OntarioBuys was created by the Ontario Government in May 2004 with a three-year mandate to facilitate and accelerate the implementation of integrated supply chain leading practices by Ontario's BPS.

Over the past 12 months, scores of Ontario BPS institutions have responded, aware that changing their supply chains presents a rare opportunity to reduce costs and improve service levels.

In the hospital sector, for example, it is estimated that integrated supply chain leading practices have the potential to:

- redirect over $100 million per year of hospital supply chain costs towards front-line care; and
- free up staff time towards improved service levels, including improved patient care.

The Hospital eSupply Chain Project is one of several initiatives that OntarioBuys supports.

Six leading health care organizations—representing 46 hospital facilities—will be automating currently manual supply chain functions through the use of eCommerce and other proven technologies. OntarioBuys' investment will allow these hospitals to redirect more than $25 million over five years away from administrative functions and towards patient services.

Hospital staff currently spend valuable time on supply chain issues and inventory management. Specific examples of the impact of the Hospital eSupply Chain Project include:

- Reduced clinical reliance on inefficient paper-based processes, freeing up time for patient care.
- Improved back-office processes such as integrated order requisition and approval and electronic invoice settlement, allowing purchasing department staff to spend less time pushing paperwork and more time supporting clinicians.
- Regional integration and consolidation of supply chain processes, allowing hospitals to even more effectively use their bulk buying power to reduce the cost of the $2 billion in goods and services they purchase annually.

The Hospital eSupply Chain Project is an example of how OntarioBuys is helping hospitals reduce their operating costs, improve service levels and support the delivery of better patient care through the adoption of integrated supply chain leading practices.

The government will continue to support its partners in the BPS in finding better and more efficient ways to deliver vital public services and equip them with the tools to do so. Important opportunities for efficiencies are being pursued in looking for consolidated purchasing and new approaches to providing internal administrative and information technology services.

The Province is also supporting modernization through small, transfer payment projects that will get tangible results and can act as a catalyst for broad reform.

For example, children's aid societies (CASs) work to meet the urgent needs of children who need care. More consistent and reliable information about children in the system would improve the effectiveness of this important work. The government will provide the Ontario Association of Children's Aid Societies with up to $12 million over two years to develop and pilot a single information system that will:

- make crucial information about children at risk immediately available to agency staff;
- provide CASs with online access to a province-wide adoption-matching system; and
- streamline administration.

Finally, as of April 1, 2005, the Province's Auditor General has the legislated authority to carry out value-for-money audits of organizations that deliver front-line services, including those in health and education. This expanded mandate should help all areas of the public sector manage the Province's finances responsibly. More detailed information can be found in Appendix 2, *Transparency and Accountability.*

Conclusion

The government is making significant progress in promoting Success for Students, Better Health for Ontarians, and revitalizing the postsecondary education system to support better jobs and a new generation of economic growth. The government is moving forward on the priorities of Ontarians—providing more resources for the Province's publicly funded schools, making major new investments in the postsecondary education and training system, and doing more to help people stay healthy, caring for them if they become sick, and doing what is necessary to ensure medicare is sustained for generations to come.

Through these strategic investments and a disciplined approach to fiscal planning, the Province's books will be in balance no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Responsible fiscal management is about more than just balancing the budget. It is about modernizing, building sustainable public services, and ensuring that programs are delivering their desired outcomes and results in the most cost-effective and efficient manner. To this end, the government performed a rigorous review of its programs and services, and has found more than half of the program review target for 2007-08. More savings are to come.

Enhanced federal support can play a vital role in complementing this fiscal plan and creating the kind of Ontario that the government, and Ontarians in general, want—better health, high-quality education, and modern infrastructure.

It will take a focused and disciplined effort by all of government and its broader public-sector partners to modernize their activities, put key public services on a sustainable basis, and promote a new generation of economic growth.

More detailed fiscal and financial information can be found in Appendix 1, *Details on Ontario's Finances.*

PAPER A: APPENDIX 1

Details on Ontario's Finances

Introduction

Paper A, *Investing in People—Managing Ontario's Finances*, provided an update on the government's progress on managing change and delivering results, the medium-term fiscal plan, as well as details on how the structural deficit will be eliminated.

This appendix provides details on Ontario's recent fiscal performance and other financial information, specifically:

- **Section I**: Ontario's Interim Performance for 2004-05;
- **Section II**: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities;
- **Section III**: Support for Investments for Healthier Ontarians;
- **Section IV**: Potential Risks, Cost Drivers and Contingent Liabilities; and
- **Section V**: Key Financial Tables and Graphs.

Section I: Ontario's Interim Performance for 2004-05

The 2004-05 interim outlook forecasts a deficit of $2,993 million, an in-year improvement of $3,127 million from the $6,120 million deficit projected in the 2004 Budget. This in-year comparison excludes the one-time revenue gain associated with eliminating the liability for non-utility generator power purchase agreements originally assumed in the 2004 Budget. The 2004-05 interim outlook also reflects the September 2004 First Ministers' health agreement and elimination of the reserve at year-end, as it was not required.

The Ontario Electricity Financial Corporation (OEFC) began receiving actual contract prices for power from ratepayers effective January 1, 2005, and will no longer incur losses on these power purchase contracts with non-utility generators as a result of legislated reforms to the electricity market. These reforms have effectively eliminated the liability associated with these contracts.

2004-05 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue*	74,479	77,137	2,658
Expense			
Programs	66,695	67,622	927
Capital	2,575	2,899	324
Interest on Debt	10,329	9,609	(720)
Total Expense	79,599	80,130	531
Reserve	1,000	-	(1,000)
Surplus/(Deficit)	**(6,120)**	**(2,993)**	**3,127**

* Revenue as per 2004-05 Budget Plan excluding one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Total revenue is estimated to be $2,658 million above the 2004-05 Budget Plan. This is mainly due to higher Corporations Tax revenues and transfer payments from the Government of Canada.
- Total expense increased in-year by $531 million above the 2004-05 Budget Plan, mainly due to higher levels of spending for health care resulting primarily from the First Ministers' health agreement, as well as increased assistance to farmers, partially offset by lower-than-forecast interest on debt costs.

- The $1 billion reserve included in the 2004-05 Budget Plan, to protect against unexpected and adverse changes in the economic and fiscal outlook, was not required—consistent with the role of the reserve in prudent budgeting practices.

In-Year Revenue Performance

Total revenue is estimated at $77,137 million, a net increase of $2,658 million from the 2004-05 Budget Plan forecast. This is mainly due to higher Corporations Tax revenues and transfer payments from the Government of Canada.

Summary of In-Year Changes to Revenue in 2004-05 ($ Millions)

		Interim 2004-05*
Taxation Revenue		
Personal Income Tax	274	
Retail Sales Tax	(133)	
Corporations Tax	1,193	
Gasoline Tax	(45)	
Land Transfer Tax	129	
All Other Taxes	47	
		1,465
Government of Canada		
First Ministers' Health Agreement	824	
All Other Government of Canada	402	
		1,226
Income from Government Enterprises		
Ontario Lottery and Gaming Corporation	(147)	
Hydro Successor Corporations	67	
All Other Government Enterprises	30	
		(50)
Other Non-Tax Revenue		17
Total Revenue Changes		**2,658**

* Revenue as per 2004-05 Budget Plan excluding one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

Revenue Changes

- Personal Income Tax revenues are currently estimated to be $274 million above the 2004-05 Budget Plan forecast due to stronger 2004 wages and salaries growth, higher 2003 tax assessments and one-time revenue arising from a federal recalculation of tax entitlements for 1995 to 2003.
- Retail Sales Tax revenues were $133 million below projection due to weaker 2004 consumer durable goods expenditure, notably low levels of vehicle sales during 2004.
- Corporations Tax revenues are currently estimated to be $1,193 million above the 2004-05 Budget Plan forecast, primarily due to stronger corporate profit growth in 2004 and an adjustment of $391 million recorded in 2004-05 due to stronger net receipts in respect of past years than estimated in the 2003-04 Public Accounts.
- Gasoline Tax revenues were $45 million below the 2004-05 Budget Plan projection due to reduced consumption corresponding to higher pump prices for gasoline.
- Land Transfer Tax revenues were $129 million above the 2004-05 Budget Plan forecast due to continued high levels of housing resales and house price increases.
- The net change in other taxation revenues combined was $47 million above the 2004-05 Budget Plan forecast.
- The September 2004 First Ministers' health agreement increased transfers from the Government of Canada by $824 million.
- All other transfers from the Government of Canada combined were $402 million above projection, mainly due to higher federal transfers to Agricorp for income stabilization and other agricultural support programs.
- Ontario Lottery and Gaming Corporation net income was $147 million below projection, mainly due to lower earnings from the border casinos. Business at border casinos continued to be adversely affected by the decreased value of the U.S. dollar, competition from U.S. facilities and perceived border-crossing slowdowns.
- Combined net income of Ontario Power Generation Inc. (OPG) and Hydro One Inc. (HOI) was $67 million above the 2004-05 Budget Plan forecast. This is due to higher HOI net income, primarily the result of an Ontario Energy Board decision to allow regulatory recovery of low-voltage service costs.
- The combined net income of all other government enterprises was $30 million above projection, mainly due to higher Liquor Control Board of Ontario net income.
- The net change in all other non-tax revenues combined was $17 million above the 2004-05 Budget Plan forecast.

In-Year Expense Performance

Total expense for 2004-05, at $80,130 million, is $531 million above the level projected in the 2004-05 Budget Plan. This increase was mainly due to increased in-year funding for health care, higher payments to farmers for agricultural support and increased capital spending, partially offset by lower-than-forecast interest on debt costs.

Summary of In-Year Expense Changes in 2004-05
($ Millions)

		Interim 2004-05
Program Expense Changes:		
Health—increased spending to reflect the First Ministers' health agreement	824	
Agricorp—increased payments to farmers for production insurance and income stabilization programs	369	
Agriculture Sector Support—grain and oilseed producer support and other assistance	259	
Graduate Education—endowment to create new fellowships for graduate students	100	
Power Purchases—lower volumes of electricity purchased than expected	(96)	
Education—transfer of funds to capital expense for technological education equipment, program start-up delays and higher-than-forecast school board revenues from education property taxes	(97)	
All Other (Net)	(432)	
Total Program Expense Changes		**927**
Capital Expense Changes:		
Postsecondary Institutions—funding for repair and equipment upgrades	250	
Hospitals—Provincial share of capital costs for 19 projects	184	
All Other (Net)	(110)	
Total Capital Expense Changes		**324**
Interest on Debt Change		**(720)**
Total In-Year Expense Changes		**531**

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Operating Expense Changes

- As a result of the First Ministers' health agreement, the Ministry of Health and Long-Term Care received an additional $824 million in-year. Of the additional $824 million, $194 million was allocated for the purchase of medical equipment. The remaining $630 million was used primarily for investments to reduce wait times and improve access to physicians.
- An additional $369 million was attributed to the Ministry of Agriculture and Food for Agricorp to provide increased funding for income stabilization and production insurance, fully offset from federal revenues.
- The Ministry of Agriculture and Food received an additional $259 million in-year for grain and oilseed producer support, bovine spongiform encephalopathy (BSE) support, income stabilization and production insurance, and other assistance.
- An additional $100 million was provided in-year to the Ministry of Training, Colleges and Universities to allow universities to establish endowments that will provide fellowships to outstanding graduate students.
- In-year savings of $96 million for power purchases were realized mainly due to lower-than-expected volumes of electricity purchased by the Ontario Electricity Financial Corporation from non-utility generators.
- Ministry of Education spending was $97 million lower in-year mainly due to a transfer from operating to capital expense to provide additional funding for technological education equipment in high schools, program start-up delays and a decline in ministry expense to offset higher-than-forecast school board revenues from education property taxes.
- All other net changes in operating spending in-year amount to a reduction of $432 million. This decrease is mainly due to drawdowns from the Contingency Fund to accommodate in-year increases for programs such as Agriculture Sector Support and Graduate Education; as well as ministry underspending in various programs across government that typically occur at year-end.
- Interest on debt costs were $720 million below the 2004-05 Budget Plan due to lower-than-forecast interest rates and continued professional and cost-effective debt management.

Capital Expense Changes

- An additional $250 million was provided to the Ministry of Training, Colleges and Universities to help colleges and universities address the cost of deferred building maintenance and upgrade equipment.
- The Ministry of Health and Long-Term Care received an additional $184 million in-year to cover the Provincial share of 19 hospital capital projects.
- All other net changes in capital spending in-year amounted to a reduction of $110 million, mainly due to underspending in various programs such as the Northern Ontario Heritage Fund and the Canada-Ontario Municipal Rural Infrastructure Program.

STATUS OF THE 2004-05 CHANGE FUND

The 2004-05 Budget Plan included a $1.0 billion Change Fund to support the government's plans to change and improve Ontario's public services. The Fund provided assistance for projects that rationalized or better integrated existing programs and services, put in place new systems or processes to reduce long-term costs, or mitigated the demand for services over the long run.

The following table highlights key investments funded through the Change Fund in 2004-05.

Change Fund Investments
($ Millions)

		Interim 2004-05
ANNOUNCED IN THE 2004 BUDGET:		
Investments for Health Care		
Community Health Services—home care and community mental health	140	
Family Health Teams	111	
e-Health Initiatives	78	
Other Projects (including wait lists and workplace safety)	280	
		609
Other Investments		
ServiceOntario Enhancement	27	
College Stabilization	25	
Nutrient Management Financial Assistance Program	5	
All Other	6	
		63
PROJECTS APPROVED IN-YEAR:		
Community Reinvestment Fund—One-Time Transition Funding	200	
Teacher Development Accounts	60	
All Other	8	
		268
Total Change Fund Investments		**940**

Source: Ontario Ministry of Finance.

The 2004 Budget reported details on key investments totalling $672 million, including $609 million that assisted the Ministry of Health and Long-Term Care with its change agenda and $63 million for other investments.

New investments of $268 million, approved and funded in-year from the Change Fund, include:

- Community Reinvestment Fund—One-Time Transition Funding: $200 million was approved to facilitate the transition from the former Community Reinvestment Fund as the Province's main funding model for municipalities, to the Ontario Municipal Partnership Fund (OMPF) (more details are provided in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth*);
- Ministry of Education: $60 million was approved for Teacher Development Accounts to provide one-time funding to offset some of the costs that teachers now bear for their professional development, and to support school board collective bargaining; and
- All other approvals totalling $8 million included minor projects supporting transformation in Management Board Secretariat and the Ministries of Children and Youth Services, Northern Development and Mines, and Transportation.

The remaining $60 million in unallocated funds was applied to reduce the Province's 2004-05 deficit.

Section II: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation of hospitals, charities, communities and the agricultural sector.

Support for Health Care, Charities, and Problem Gambling and Related Programs ($ Millions)

	Interim 2004-05	Plan 2005-06
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,505	1,507
Ontario Trillium Foundation	95	100
Problem Gambling and Related Programs	36	36
Commercial Casinos Revenue		
General Government Priorities	334	298
Total	**1,970**	**1,941**

Sources: Ontario Ministry of Economic Development and Trade and Ontario Ministry of Finance.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2005-06, it is estimated that $1,507 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals.
- The Ontario Trillium Foundation has become one of Canada's largest grant-making foundations. In 2005-06, the Ontario Trillium Foundation will be provided with $100 million to help build strong and healthy communities by contributing to charitable and not-for-profit organizations.
- Two per cent of gross slot machine revenue, estimated at $36 million for 2005-06, is allocated to programs that support problem gambling and related treatment, prevention and research programs.

Benefits from Commercial Casinos

- In 2005-06, net Provincial revenue from commercial casinos estimated at $298 million will be used to support general government priorities including health care and education.
- Since the commencement of commercial casino operations, 27,000 direct and indirect jobs have been created in Ontario. Commercial casino operations and the additional tourists they attract contribute an estimated $2.4 billion annually to the Ontario economy.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Support for the Agricultural Sector and Municipalities*
($ Millions)

	Interim 2004-05	Plan 2005-06
Agricultural Sector	301	312
Municipalities	75	78
Total	**376**	**390**

* The agricultural sector's share of racetrack slot machine revenue and municipalities' share of slot machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Source: Ontario Ministry of Economic Development and Trade.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over $1.4 billion to Ontario's horse-racing industry, a key component of the Province's agricultural sector. For 2005-06, additional support is estimated at $312 million.
- A portion of gross slot machine revenue estimated at $78 million in 2005-06 will be provided to municipalities that host charity casinos and slot operations at racetracks, to help offset local infrastructure and service costs.

Section III: Support for Investments for Healthier Ontarians

The government's priority of achieving Better Health for Ontarians extends beyond the immediate programs and services funded by the Ministry of Health and Long-Term Care. Programs and services that support Better Health are also delivered through such ministries as Children and Youth Services; Community and Social Services; Training, Colleges and Universities; and Tourism and Recreation.

Year-over-Year Increases in Programs Contributing to Better Health ($ Millions)

	Increase 2005-06	
Ministry of Health and Long-Term Care:		
Hospitals—will provide 53,200 additional MRI exams from nine new or upgraded machines and increased hours of operation; almost 2,900 more cancer surgeries; 14,000 more cataract and almost 7,000 more cardiac procedures; and over 4,300 additional hip and knee joint replacements this year	504	
OHIP—establishing 52 Family Health Teams and providing funding for the agreement with the Ontario Medical Association	335	
Ontario Drug Programs—accommodates the growing number of seniors, aging of the population and funding of new drugs	319	
Home Care, Community and Mental Health Services—expanding home care to almost 50,000 additional Ontarians, including end-of-life care for 4,300 people, and supporting almost 34,000 additional mental health patients in their communities	292	
Long-Term Care Homes—enhancing the quality of care provided to over 74,000 residents of long-term care homes by funding 2,000 additional staff, including 600 full-time nurses	264	
Public Health and Other—primarily to improve capacity to manage infectious disease control; increase Provincial share of public health unit costs to 65 per cent in January 2006; and enhance public education to help motivate smokers to quit and provide them with support through the process	122	
Total Ministry of Health and Long-Term Care		1,836
Ministry of Children and Youth Services: growth in spending on Children's Mental Health, Children's Treatment Centres, and Healthy Babies, Healthy Children programs		46
Ministry of Community and Social Services: Ontario Drug Benefit Plan utilization growth for Ontario Works and Ontario Disability Support Program recipients		38
Ministry of Training, Colleges and Universities: increased enrolment in medical schools and collaborative nursing education		44
Ministry of Tourism and Recreation: promotion of physical activity		3
Total Increase in Funding		**1,967**

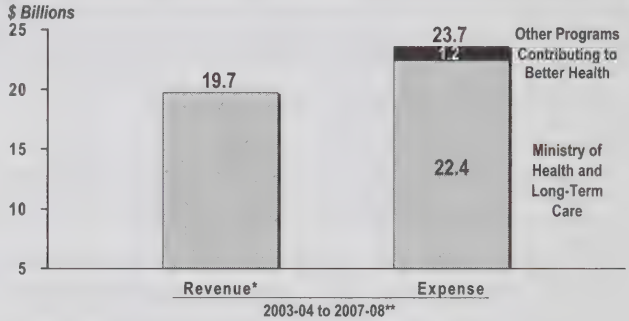
Sources: Ontario Ministry of Finance.

In 2005-06, the Ministry of Health and Long-Term Care will spend $1,836 million more than in the previous year—an amount that exceeds the additional $1,787 million in revenue that will be generated this year by funding from the federal government to support health care and the Ontario Health Premium. If all spending on the broader determinants of health is considered, the Province will be spending $1,967 million more in 2005-06 than in 2004-05.

Health-Related Revenues and Expense

By 2007-08, the Province will be investing a cumulative total of $23.7 billion in Better Health. In support of this investment, the Province has several key sources of revenue dedicated to funding health-related initiatives. By 2007-08, the overall cumulative total revenue from the Ontario Health Premium and federal transfers to support health care will amount to $19.7 billion.

Cumulative Change in Health-Related Revenues and Expense by 2007-08



*Includes transfers from the federal government and the Ontario Health Premium only.
**Cumulative change by 2007-08 compared to 2003-04.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

It should be noted that all health-related revenues contribute only a portion of total Ministry of Health and Long-Term Care operating costs. In 2005-06, expected health-related revenues including federal transfer payments, Employer Health Tax, Ontario Health Premium and net proceeds from the Ontario Lottery and Gaming Corporation are expected to amount to $16.3 billion, or only about 50 per cent of the $32.9 billion required for the Ministry of Health and Long-Term Care this year.

Section IV: Potential Risks, Cost Drivers and Contingent Liabilities

As required by the *Fiscal Transparency and Accountability Act, 2004*, this section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions, program demands or the materialization of liabilities. It should be cautioned that these sensitivities and risks, while useful, are only guidelines and can vary depending on the nature and composition of potential risks and liabilities.

The Ontario Economy and Provincial Revenues

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of Provincial revenue. Of the total $81.7 billion in revenues forecast for 2005-06, $57.7 billion or about 71 per cent is expected to come from taxation revenues. Eliminating the structural deficit will require the close alignment of spending growth with growth in tax revenues. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for about 55 per cent of total revenues. However, inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of any deficit-reduction plan.

The economic assumptions on which the revenue projections are based are described in the Appendix to Paper B, *Ontario's Economic Outlook.*

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2005-06 Assumption	2005-06 Sensitivities
Total Revenues		
- Real GDP	2.0 per cent growth in 2005	$615 million revenue change for each percentage point change in real GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
- GDP Deflator	1.9 per cent increase in 2005	
- Canadian Interest Rates	2.6 per cent three-month Treasury Bill rate in 2005	Between $60 million and $310 million revenue change in the opposite direction for each percentage point change in interest rates.
- U.S. Real GDP	3.4 per cent growth in 2005	Between $185 million and $430 million revenue change for each percentage point change in U.S. real GDP growth.
- Canadian Dollar Exchange Rate	82.8 cents US in 2005	Between $25 million and $110 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2005-06 Assumption	2005-06 Sensitivities
Total Taxation Revenues		
- Revenue Base[1]	3.5 per cent growth in 2005-06	$550 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
- Nominal GDP	3.9 per cent growth in 2005	
Personal Income Tax Revenues		
- Revenue Base	5.2 per cent growth in 2005-06	
Key Economic Assumptions		
- Wages and Salaries	3.6 per cent growth in 2005	$220 million revenue change for each percentage point change in wages and salaries growth.
- Employment	1.0 per cent growth in 2005	
- Unincorporated Business Income	4.1 per cent growth in 2005	
Key Revenue Assumptions		
- Net Capital Gains Income	3.9 per cent growth in 2005	$3 million revenue change for each percentage point change in net capital gains income growth.
- RRSP Deductions	4.4 per cent growth in 2005	$14 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
- 2004 Tax-Year Assessments	$18.8 billion	$190 million revenue change for each percentage point change in 2004 Personal Income Tax assessments.[2]
Retail Sales Tax Revenues		
- Revenue Base	3.6 per cent growth in 2005-06	
Includes:		
- Taxable Household Spending	3.1 per cent growth in 2005-06	
- Other Taxable Spending	4.2 per cent growth in 2005-06	
Key Economic Assumptions		
- Retail Sales	4.0 per cent growth in 2005	
- Nominal Consumption Expenditure	4.5 per cent growth in 2005	$90 million revenue change for each percentage point change in nominal consumption expenditure growth.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2005-06 Assumption**	**2005-06 Sensitivities**
Corporations Tax Revenues		
- Revenue Base	1.2 per cent growth in 2005-06	
- Corporate Profits	3.0 per cent growth in 2005	$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
- 2004-05 Tax Assessment Refunds[3]	$1.4 billion payable in 2005-06	$14 million revenue change in the opposite direction for each percentage point change in 2004-05 refunds.
- 2004-05 Tax Payments Upon Filing	$0.6 billion receivable in 2005-06	$6 million revenue change for each percentage point change in 2004-05 payments upon filing or assessment payments.
- 2004-05 Tax Assessment Payments	$0.6 billion receivable in 2005-06	
Employer Health Tax Revenues		
- Revenue Base	3.0 per cent growth in 2005-06	
- Wages and Salaries	3.6 per cent growth in 2005	$30 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
- Revenue Base	3.9 per cent growth in 2005-06	
- Personal Income	3.8 per cent growth in 2005	$20 million revenue change for each percentage point change in personal income growth.
Gasoline Tax Revenues		
- Revenue Base	1.0 per cent growth in 2005-06	
- Gasoline Pump Prices	82 cents per litre	$5 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
- Revenue Base	2.1 per cent growth in 2005-06	
- Real GDP	2.0 per cent growth in 2005	$10 million revenue change for each percentage point change in real GDP growth.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2005-06 Assumption**	**2005-06 Sensitivities**
Land Transfer Tax Revenues		
- Revenue Base	0.4 per cent decline in 2005-06	
- Housing Resales	3.7 per cent decline in 2005	$10 million revenue change for each percentage point change in both the number and prices of housing resales.
- Resale Prices	1.1 per cent growth in 2005	
Health and Social Transfers		
- Canada-wide Revenue Base	$27.2 billion in 2005-06	
- Ontario Revenue Share	37.3 per cent in 2005-06	
- Ontario Population Share	38.9 per cent in 2005-06	$40 million revenue change for each tenth of a percentage point change in population share.
- Ontario Basic Federal PIT Share	44.3 per cent in 2005-06	$10 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.

1. Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2004 Personal Income Tax is a forecast estimate because 2004 tax returns are currently being assessed by the Canada Revenue Agency.
3. Corporations Tax refunds arising during 2004-05 are still subject to considerable uncertainty because a very high proportion of corporations have until June 30, 2005 to file their 2004 tax returns.

EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on expense averages for key program areas and might change depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities

Program/Sector	2005-06 Assumption	2005-06 Sensitivities
Health	Annual growth of 5.9 per cent	One per cent change in health: $329 million.
Hospitals	Annual growth of 4.7 per cent	One per cent change in hospital funding: $120 million.
Drug Programs	Annual growth of 12 per cent (seniors)	One per cent change in utilization of all drug programs: $36 million (seniors and social assistance recipients).
Home Care/Community Services	Over 15.5 million hours of homemaking and support services; 8.5 million nursing and professional visits	One per cent change in hours of homemaking and support services: $4 million. One per cent change in nursing and professional visits: $6 million.
Long-Term Care Homes	More than 74,000 long-term care home beds	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $36,000. One per cent change in number of beds: $27 million.
Elementary and Secondary Schools*	Almost two million average daily pupil enrolment	One per cent enrolment change: $160 million.
College Students	151,000 full-time students	One per cent enrolment change: $7 million.
University Students	280,000 full-time undergraduate students	One per cent enrolment change: $19 million.
Ontario Works*	194,000 average annual caseload	One per cent caseload change: $15 million.
Ontario Disability Support Program*	226,000 average annual caseload	One per cent caseload change: $23 million.
Correctional System	2.8 million adult inmate days per year	Average cost $155 per inmate per day. One per cent change in inmate days: $4 million.
Interest on Debt	Average cost of borrowing is forecast to be approximately 5.4 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million.

* Based on 2004-05.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public-sector partners and the Province.

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians†	$70 million	Almost 22,000 physicians in Ontario, comprising 10,800 family doctors and 11,000 specialists.
Hospital Nurses*	$34 million	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff**	$119 million	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service***	$50 million	Over 64,000 public servants.

† Based on 2005-06.

* Based on 2003-04.

** One per cent increase in salary benchmarks in Grants for Student Needs based on 2004-05 school year.

*** Based on 2004-05, reflects total compensation costs.

Contingent Liabilities

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and that can be reasonably estimated, are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities as disclosed in the 2003-04 Annual Report and Consolidated Financial Statements are described below. This disclosure will be updated as at March 31, 2005 in the 2004-05 Annual Report and Consolidated Financial Statements.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. The Province has also provided a direct Provincial

guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

The Province provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2004 was $4.4 billion. The outstanding loans guaranteed and other contingencies amounted to $3.4 billion at March 31, 2004. A provision of $397 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2003-04 Annual Report and Consolidated Financial Statements of the Province.

Social Housing—Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2004, there were $9.0 billion in mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2004, there were 80 claims outstanding against the Crown that were for amounts over $50 million.

Section V: Key Financial Tables and Graphs

The following pages provide details on Ontario's Finances—both historical and projections over the medium term.

Key tables consist of:

- Medium-Term Fiscal Plan and Outlook (2004-05 to 2008-09);
- Fiscal Outlook (2004-05 to 2005-06);
- Details on Provincial Revenue (2001-02 to 2005-06);
- Details on Provincial Operating Expense, by Ministry (2001-02 to 2005-06);
- Details on Provincial Capital Expense, by Ministry (2001-02 to 2005-06);
- Schedule of Net Investment in Capital Assets (2005-06);
- Details on Capital Investment (2005-06);
- Summary of Consolidated Government Organizations (2005-06); and
- Ten-Year Review of Selected Financial and Economic Statistics (1996-97 to 2005-06).

Key graphs consist of:

- Composition of Revenue (2005-06);
- Composition of Total Expense (2005-06);
- Composition of Program Expense (2005-06); and
- Composition of Capital Expense (2005-06).

Medium-Term Fiscal Plan and Outlook **Table A1**
($ Billions)

	Interim	Plan	Outlook		
	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue	**77.1**	**81.7**	**84.8**	**88.5**	**92.2**
Expense					
Programs	67.6	71.0	73.3	75.9	77.9
Capital	2.9	2.7	2.5	2.1	2.1
Interest on Debt	9.6	9.8	10.0	10.4	10.7
Total Expense	80.1	83.5	85.7	88.5	90.7
Surplus/(Deficit) Before Reserve	**(3.0)**	**(1.8)**	**(0.9)**	**0.0**	**1.5**
Reserve	**-**	**1.0**	**1.5**	**1.5**	**1.5**
Surplus/(Deficit)	**(3.0)**	**(2.8)**	**(2.4)**	**(1.5)**	**0.0**
Net Debt†	**142.2**	**146.0**	**149.7**	**152.6**	**153.8**
Accumulated Deficit†	**127.2**	**130.0**	**132.4**	**133.9**	**133.9**
Gross Domestic Product (GDP) at Market Prices	517.6	538.0	562.6	592.2	623.6
Net Debt as a per cent of GDP	27.5	27.1	26.6	25.8	24.7
Accumulated Deficit as a per cent of GDP	24.6	24.2	23.5	22.6	21.5

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

2005-06 Fiscal Outlook **Table A2**
($ Millions)

	Interim 2004-05	Plan 2005-06	Change	
			$ Millions	Per cent
Revenue	77,137	81,687	4,550	5.9
Expense				
Programs	67,622	71,014	3,392	5.0
Capital	2,899	2,673	(226)	(7.8)
Interest on Debt	9,609	9,796	187	1.9
Total Expense	80,130	83,483	3,353	4.2
Surplus/(Deficit) Before Reserve	**(2,993)**	**(1,796)**	**1,197**	**(40.0)**
Reserve	-	1,000	1,000	-
Surplus/(Deficit)	**(2,993)**	**(2,796)**	**197**	**(6.6)**
Net Debt†	**142,228**	**146,017**	**3,789**	**2.7**
Accumulated Deficit†	**127,181**	**129,977**	**2,796**	**2.2**

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

Revenue **Table A3**
($ Millions)

	2001-02	2002-03	Actual 2003-04	Interim 2004-05	Plan 2005-06
Taxation Revenue					
Personal Income Tax	19,097	18,195	18,301	19,095	20,026
Retail Sales Tax	13,803	14,183	14,258	14,903	15,475
Corporations Tax	6,646	7,459	6,658	9,513	9,248
Employer Health Tax	3,502	3,589	3,753	3,886	4,033
Ontario Health Premium	-	-	-	1,749	2,422
Gasoline Tax	2,192	2,306	2,264	2,283	2,308
Fuel Tax	659	682	681	719	733
Tobacco Tax	703	1,183	1,350	1,466	1,511
Land Transfer Tax	665	814	909	1,056	1,056
Electricity Payments-In-Lieu of Taxes	387	711	627	509	656
Other Taxes	371	429	347	284	258
	48,025	**49,551**	**49,148**	**55,463**	**57,726**
Government of Canada*					
Canada Health and Social Transfer (CHST)	5,831	7,346	7,345	-	-
Canada Health Transfer (CHT)	-	-	-	5,636	7,127
Canada Social Transfer (CST)**	-	-	-	2,917	3,311
CHST Supplements	380	191	577	775	584
Social Housing	524	525	528	521	520
Infrastructure Programs	-	97	150	222	293
Wait Times Reduction Fund	-	-	-	242	243
Medical Equipment Funds	190	-	192	387	194
Other Government of Canada	829	735	1,101	1,324	901
	7,754	**8,894**	**9,893**	**12,024**	**13,173**
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,255	2,288	2,106	1,970	1,941
Liquor Control Board of Ontario	904	939	1,045	1,140	1,186
Ontario Power Generation Inc. and Hydro One Inc.	179	717	(17)	402	887
Other Government Enterprises	7	(2)	(64)	2	5
	3,345	**3,942**	**3,070**	**3,514**	**4,019**
Other Non-Tax Revenue					
Reimbursements	1,592	1,111	1,206	1,258	1,319
Electricity Debt Retirement Charge	-	889	1,000	1,009	1,018
Vehicle and Driver Registration Fees	941	982	985	991	1,017
Power Sales	815	635	510	610	961
Other Fees and Licences	474	606	594	494	510
Liquor Licence Revenue	530	530	488	493	502
Net Reduction of Power Purchase Contract Liability	-	161	104	236	396
Sales and Rentals	344	560	532	355	369
Royalties	224	304	248	268	236
Miscellaneous Other Non-Tax Revenue	2,490	726	622	422	441
	7,410	**6,504**	**6,289**	**6,136**	**6,769**
Total Revenue	**66,534**	**68,891**	**68,400**	**77,137**	**81,687**

* Health Reform Fund included in CHST in 2003-04 and CHT in 2004-05.

** Includes 2005 Federal Budget additional Early Learning and Child Care revenues of $272 million in 2005-06.

Operating Expense **Table A4**
($ Millions)

Ministry	2001-02	2002-03	Actual 2003-04	Interim 2004-05	Plan 2005-06
Agriculture and Food	456	598	673	733	564
One-Time and Extraordinary Costs	319	18	-	444	-
Attorney General	995	1,052	1,199	1,183	1,199
Board of Internal Economy	124	146	196	149	167
Children and Youth Services	2,244	2,431	2,640	2,856	3,196
Citizenship and Immigration	59	53	52	56	63
Community and Social Services	5,807	5,842	5,995	6,393	6,595
Community Safety and Correctional Services	1,513	1,656	1,666	1,741	1,753
Consumer and Business Services	172	178	182	201	178
Culture	279	331	303	295	275
Democratic Renewal Secretariat	-	-	-	2	4
Economic Development and Trade	221	242	253	279	688
Education	8,354	8,998	9,665	10,526	11,267
Teachers' Pension Plan (TPP)	42	238	235	240	290
Energy	367	144	116	138	148
Environment	265	237	261	310	314
Executive Offices	19	20	24	19	19
Finance - Own Account	1,197	1,092	1,255	1,141	1,126
Interest on Debt	10,337	9,694	9,604	9,609	9,796
Community Reinvestment Fund/Ontario Municipal Partnership Fund	557	622	651	626	662
Community Reinvestment Fund One-Time Transition Funding	-	-	-	233	-
Electricity Consumer Price Protection Fund	-	665	253	-	-
Power Purchases	815	786	797	850	961
Health and Long-Term Care	23,923	25,800	28,036	31,112	32,948
SARS-related and Major One-Time Health Costs	-	-	824	-	-
Intergovernmental Affairs	6	9	6	13	8
Labour	110	123	117	132	146
Management Board Secretariat	246	186	214	687	469
Retirement Benefits	63	102	309	493	514
Contingency Fund	-	-	-	-	557
Municipal Affairs and Housing	1,136	636	662	771	683
Native Affairs Secretariat	13	16	15	18	14
Natural Resources	438	454	516	485	492
Northern Development and Mines	75	73	76	79	111
Office of Francophone Affairs	5	3	3	4	4
Public Infrastructure Renewal	15	33	18	20	30
Tourism and Recreation	143	135	209	184	163
Training, Colleges and Universities	3,290	3,471	3,883	4,298	4,781
Transportation	664	814	800	911	975
Year-End Savings	-	-	-	-	(350)
Total Operating Expense	**64,269**	**66,898**	**71,708**	**77,231**	**80,810**

Capital Expense† **Table A5**
($ Millions)

Ministry	2001-02	2002-03	Actual 2003-04	Interim 2004-05	Plan 2005-06
Agriculture and Food	29	68	1	4	11
Attorney General	46	43	24	37	75
Children and Youth Services	6	7	-	5	109
Community and Social Services	25	16	10	20	33
Community Safety and Correctional Services	88	66	47	32	48
Consumer and Business Services	-	1	1	4	5
Culture	14	42	24	67	115
Economic Development and Trade	19	21	31	77	82
Education	17	10	15	50	6
Energy	50	46	53	53	49
Environment	20	13	4	7	13
Finance	11	8	5	5	5
Health and Long-Term Care	205	339	358	531	339
Management Board Secretariat*	28	3	(33)	(5)	(18)
Municipal Affairs and Housing	12	20	206	273	392
Native Affairs Secretariat	3	2	-	2	3
Natural Resources	70	72	111	74	53
Northern Development and Mines	371	391	332	357	421
Public Infrastructure Renewal	-	4	18	46	57
Capital Contingency Fund	-	-	-	-	175
Tourism and Recreation	9	55	51	65	93
Training, Colleges and Universities	49	71	120	421	135
Transportation	818	578	797	774	622
Year-End Savings	-	-	-	-	(150)
Total Capital Expense	**1,890**	**1,876**	**2,175**	**2,899**	**2,673**

† Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

* Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03, any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in Management Board Secretariat.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Schedule of Net Investment in Capital Assets ($ Millions)				Table A6
	2005-06 Plan			
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	Total
Acquisition/Construction of Major Tangible Capital Assets	160	1,131	526	1,817
Amortization of Provincially Owned Major Tangible Capital Assets	(84)	(534)	(206)	(824)
Net Investment in Capital Assets	**76**	**597**	**320**	**993**

Source: Ontario Ministry of Public Infrastructure Renewal.

Gross Capital Investment ($ Millions)		Table A7
	Plan 2005-06	
Transportation		
Transit	513	
Highways	1,135	
Other Transportation	110	
		1,758
Health and Long-Term Care		349
Postsecondary Education		132
Water/Environment		292
Municipal and Local Infrastructure*		535
Justice		123
Other		477
Total Gross Capital Investment**		**3,666**
Less: Net Investment in Capital Assets		**993**
Total Capital Expense		**2,673**

* Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

** Total gross capital investment includes flow-throughs of $531 million.

Source: Ontario Ministry of Public Infrastructure Renewal.

Summary of Consolidated Government Organizations

The government carries out a number of activities through government organizations. These organizations provide, in some circumstances, programs directly to the public and in other cases services to the government itself.

Table A8 has been added to the Appendix this year to provide the public with additional information on the extent of activities carried out through these organizations. It reflects the total revenues and expenses related to the activities of these organizations and the extent to which they receive transfer payments from the government to fund these activities. The net increase/(decrease) to Provincial deficit reflects, for those organizations offering services directly to the public, the net grant to support these activities; and for those organizations offering services to the government, the net costs of services used by the government during the year.

Summary of Consolidated Government Organizations*
($ Millions)

Table A8

Ministry/Agency	2005-06 Plan				
	Agency**			Transfers from Province Included in Agency Revenue	Net Increase/ (Decrease) to Provincial Deficit
	Total Revenue	Total Expense	Net (Income)/ Loss		
Agriculture and Food					
Agricorp	404	376	(28)	138	110
Attorney General					
Legal Aid Ontario	290	310	20	254	274
Culture					
Ontario Science Centre	38	39	1	18	19
Ontario Trillium Foundation	106	106	-	100	100
Royal Ontario Museum	23	25	2	19	21
Economic Development and Trade					
Ontario Immigrant Investor Corporation	12	5	(7)	-	(7)
Education					
Education Quality and Accountability Office	40	40	-	40	40
Energy					
Independent Electricity System Operator	154	152	(2)	-	(2)
Ontario Energy Board	32	32	-	-	-

Summary of Consolidated Government Organizations* Table A8
($ Millions)

Ministry/Agency	2005-06 Plan				
	Agency**			Transfers from Province Included in Agency Revenue	Net Increase/ (Decrease) to Provincial Deficit
	Total Revenue	Total Expense	Net (Income)/ Loss		
Finance					
Ontario Financing Authority†	25	25	-	17	17
Ontario Securities Commission††	57	65	8	-	8
Ontario Strategic Infrastructure Financing Authority	103	124	21	-	21
Health and Long-Term Care					
Cancer Care Ontario	479	473	(6)	449	443
Smart Systems for Health	107	107	-	98	98
Management Board Secretariat (MBS)					
Ontario Realty Corporation (ORC)†	51	50	(1)	50	49
ORC Operating as Agent for the Province† ***	600	584	(16)	548	532
Municipal Affairs and Housing					
Ontario Housing Corporation	118	79	(39)	116	77
Northern Development and Mines					
Northern Ontario Heritage Fund Corporation	68	116	48	61	109
Tourism and Recreation					
Metropolitan Toronto Convention Centre	45	41	(4)	-	(4)
Ontario Place Corporation	18	19	1	4	5
Ontario Tourism Marketing Partnership Corporation	50	55	5	49	54
Training, Colleges and Universities					
Ontario Educational Communications Authority (TVOntario)	79	76	(3)	59	56

Summary of Consolidated Government Organizations* — **Table A8**
($ Millions)

	2005-06 Plan				
	Agency**				
Ministry/Agency	Total Revenue	Total Expense	Net (Income)/ Loss	Transfers from Province Included in Agency Revenue	Net Increase/ (Decrease) to Provincial Deficit
Transportation					
Greater Toronto Transit Authority (GO Transit)	538	351	(187)	311	124
Toronto Area Transit Operating Authority	45	3	(42)	45	3
Total	**3,482**	**3,253**	**(229)**	**2,376**	**2,147**

* The Ontario Electricity Financial Corporation (OEFC) has a projected excess of revenue over expense of $713 million for 2005-06. As OEFC's revenues are dedicated to managing and retiring the debt and other liabilities of the former Ontario Hydro, OEFC is not included in this table as its activities are not comparable to the activities of other government organizations.

** The revenues and expenses of government organizations, except for government business enterprises, are consolidated on a line-by-line basis with ministry revenues and expenses. Adjustments are made to present the accounts of these government organizations on a basis consistent with the Province's accounting policies, e.g., conforming the accounting for capital grants received by an organization to the Province's accounting policy. These adjustments have been made to the agencies' revenues and expenses above except for interest revenue and interest expense adjustment. Upon consolidation, adjustments are made to eliminate significant inter-organization transactions, e.g., transfers received from the Province.

*** ORC maintains several operating bank accounts that are held "in trust", administered on behalf of MBS, and relate directly to the operation of MBS-owned and -leased properties or services provided to other ministries or agencies of the Ontario Government. The activities reported under ORC Operating as Agent for the Province are shown separately as they will not be reflected on ORC's financial statements. Transfers to ORC reflect the accommodation charges and contributions received from ministries and agencies for leased premises or buildings owned by the Province and managed by ORC. The Net Increase to Provincial Deficit for ORC represents the costs of these leased premises and the operating costs of the Provincially owned assets and the costs of other realty activities incurred on behalf of ministries and agencies by ORC as the Province's realty service provider. The planned expenditures actually reside in individual Ministry allocations or agency budgets in either the current or prior years.

† Organizations offering service to the government.

†† The Ontario Securities Commission is a fully self-funded agency. OSC fees are set over a three-year period to recover any deficits or adjust for any surpluses so that the fees set by the OSC accurately reflect the Commission's cost of operations.

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	1996-97	1997-98	1998-99
Financial Transactions			
Revenue	49,714	52,782	56,050
Expense			
Programs	45,400	45,568	46,821
Capital*	2,612	2,451	2,215
Interest on Debt	8,607	8,729	9,016
Total Expense	56,619	56,748	58,052
Surplus/(Deficit) Before Reserve	**(6,905)**	**(3,966)**	**(2,002)**
Reserve	-	-	-
Surplus/(Deficit)	**(6,905)**	**(3,966)**	**(2,002)**
Net Debt†	**108,769**	**112,735**	**114,737**
Accumulated Deficit†	**108,769**	**112,735**	**114,737**
Gross Domestic Product (GDP) at Market Prices	338,173	359,353	377,897
Personal Income	276,303	289,537	304,652
Population—July (000s)	11,083	11,228	11,367
Net Debt per Capita (dollars)	9,814	10,041	10,094
Personal Income per Capita (dollars)	24,930	25,787	26,801
Total Expense as a per cent of GDP	16.7	15.8	15.4
Interest on Debt as a per cent of Revenue	17.3	16.5	16.1
Net Debt as a per cent of GDP	32.2	31.4	30.4
Accumulated Deficit as a per cent of GDP	32.2	31.4	30.4

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

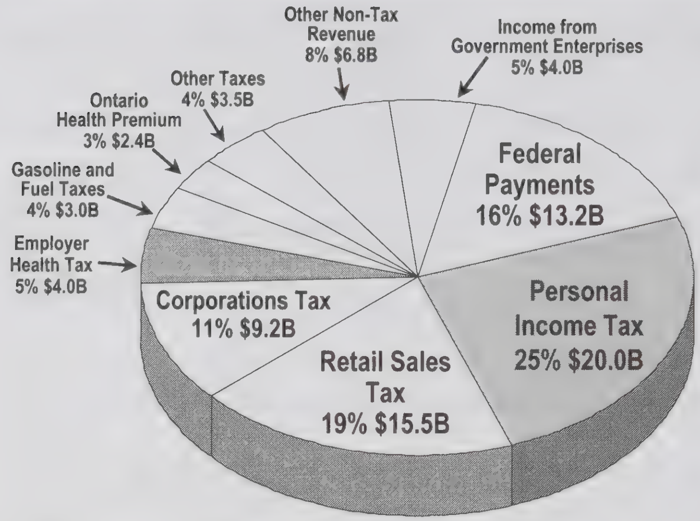
† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table A9

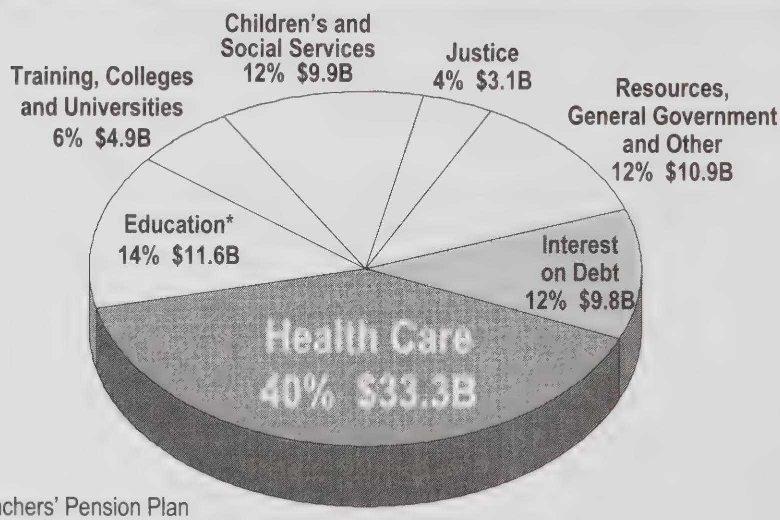
1999-00	2000-01	2001-02	2002-03	Actual 2003-04	Interim 2004-05	Plan 2005-06
65,042	66,294	66,534	68,891	68,400	77,137	81,687
48,460	51,396	53,932	57,204	62,104	67,622	71,014
4,887	2,123	1,890	1,876	2,175	2,899	2,673
11,027	10,873	10,337	9,694	9,604	9,609	9,796
64,374	64,392	66,159	68,774	73,883	80,130	83,483
668	**1,902**	**375**	**117**	**(5,483)**	**(2,993)**	**(1,796)**
-	-	-	-	-	-	1,000
668	**1,902**	**375**	**117**	**(5,483)**	**(2,993)**	**(2,796)**
134,398	**132,496**	**132,121**	**132,647**	**138,557**	**142,228**	**146,017**
134,398	**132,496**	**132,121**	**118,705**	**124,188**	**127,181**	**129,977**
409,020	440,759	453,931	479,556	494,501	517,614	537,958
321,702	347,653	360,496	369,606	379,216	392,858	407,700
11,506	11,685	11,898	12,102	12,257	12,393	12,551
11,681	11,339	11,104	10,961	11,304	11,476	11,634
27,959	29,752	30,299	30,541	30,939	31,700	32,483
15.7	14.6	14.6	14.3	14.9	15.5	15.5
17.0	16.4	15.5	14.1	14.0	12.5	12.0
32.9	30.1	29.1	27.7	28.0	27.5	27.1
32.9	30.1	29.1	24.8	25.1	24.6	24.2

Composition of Revenue 2005-06



Note: Numbers may not add due to rounding.

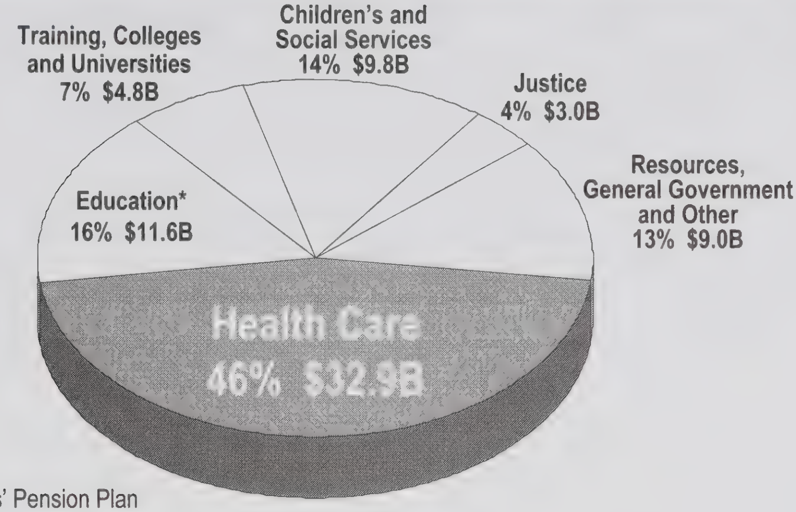
Composition of Total Expense 2005-06



* Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

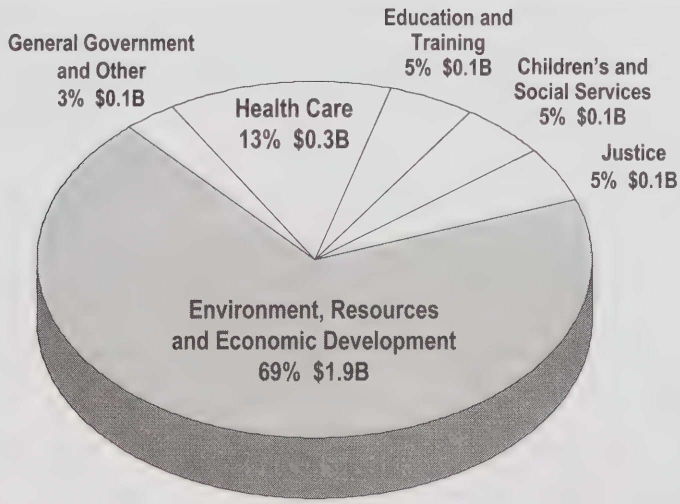
Composition of Program Expense 2005-06



* Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

Composition of Capital Expense 2005-06



Note: Numbers may not add due to rounding.

PAPER A: APPENDIX 2

Transparency and Accountability

Transparency and Accountability

Transparency is the basis of an accountable, democratic government. To participate effectively in a democratic process, citizens must be able to see fully and clearly what their government is doing. Transparent communication with citizens involves not just making information available, but also ensuring its integrity and clarity. Because governments often deal with issues that are by nature complicated, a commitment to transparency is both important and challenging.

Accountability involves setting out expectations about the outcomes to be achieved; monitoring and reporting publicly on progress; using that information to improve performance; and working to achieve results and taking responsibility for them. Accountability relationships exist between governments and the electorate; between politicians and the public service; between managers and staff; and between service funders, providers and their clients. For taxpayers, accountability works to ensure that tax dollars are spent on achieving key results as efficiently as possible.

The government established a new emphasis on transparency and accountability and has made progress over the past year.

- The *Fiscal Transparency and Accountability Act, 2004* (FTAA) sets new standards for how the government plans to allocate resources, and how and when it reports to the people on the state of the Province's finances. In particular, the FTAA requires two new and different reports. A long-term analysis within two years of an election and a pre-election report before every general election will provide the public with the kind of information they need to participate more fully in policy debates.
- In line with Public Sector Accounting Board (PSAB) standards of the Canadian Institute of Chartered Accountants, the Province's financial statements will incorporate the bottom-line financial results of hospitals, school boards and colleges beginning with the 2005-06 Public Accounts.
- Modern Controllership, a training and development initiative that has been evolving over the last several years, requires managers and financial specialists across the Ontario Public Service to work in a co-ordinated way to prioritize, plan and meet operational goals.
- A government-wide, results-based approach to planning has been developed to invest in the priorities of Ontario while still living within Ontario's means. Program results are integrated into planning and decision-making, and regular reports are made to the public on progress towards achieving their goals.
- Legislation passed in 2004 gives the Provincial Auditor, now called the Auditor General, the authority to carry out value-for-money audits of organizations that deliver front-line services, including health care and education.

Consolidating Hospitals, Schools and Colleges

In its 2004 Budget, the government announced it would expand its financial reporting to include hospitals, schools and colleges in its financial statements starting with the 2005-06 Public Accounts and the subsequent 2007 Ontario Budget, reflecting PSAB's new standard defining those organizations that should be included in the government's financial statements. With this change in its financial reporting, the bottom-line financial results of some 105 school boards and school authorities, 24 colleges and 152 hospitals will now be reflected in the Province's financial statements. Up until now, the only information included in the Province's books with respect to these organizations was the funds transferred to them. Now, their actual expenditures, investments and borrowings will be reflected on a bottom-line basis in the Province's financial statements. The Province will also provide additional information on the major assets, liabilities, revenues and expenses of these sectors in the schedules supporting the Province's financial statements.

Value-for-Money Audits

The Office of the Auditor General is an independent body that contributes to accountability in government. Auditors with professional accounting designations assess government programs and systems to help improve the government's delivery of programs and ensure that Ontario taxpayers receive value for money. The Auditor General's annual reports are a catalyst for action because they make recommendations to overcome identified problems and report the extent of commitment by management to take action. These public reports promote better accountability and governance.

As of April 1, 2005, the Auditor General possesses expanded powers to conduct value-for-money audits of institutions in the broader public sector. This new mandate includes school boards, universities, colleges, hospitals and all Crown-controlled corporations including Hydro One, Ontario Power Generation and their subsidiaries. More public-sector organizations will be reviewed to ensure that Ontarians are getting value for the money they invest in their public services. The Auditor General's reports are tabled in the legislature and made available to the public.

Value-for-money audits are motivated by two principal considerations:

- whether money was spent with due regard for economy and efficiency; and
- whether appropriate procedures are in place to measure and report on the effectiveness of the programs.

Value-for-money audits deal with the administration of programs and activities, including major information systems. It is not part of the Auditor General's mandate to measure, evaluate or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of management. The Auditor General is responsible for reporting whether management has carried out these functions satisfactorily.

CONCLUSION

Democracy depends on a knowledgeable citizenry whose access to a range of information enables them to participate more fully in public life, to help determine priorities for public spending, and to hold their public officials accountable. By combining integrity and clarity of information with monitoring and reporting on progress to improve results, the government is committed to a fiscal policy that is transparent and accountable.

In implementing these changes in its financial reporting and auditing practices, the Province is improving the transparency and accountability of government in Ontario.

PAPER B

Achieving Our Potential: Progress Towards a New Generation of Economic Growth

Introduction

Today, Ontario provides a quality of life that is among the highest in the world. There is, however, no room for complacency. In an era where ideas and technology spread rapidly over borders, where barriers to trade are falling and where global competition is fierce, the challenge of improving living standards is significant. In Ontario's case, this challenge is compounded by the recent strengthening of the Canadian dollar and the emergence of new competitors in countries with lower production costs.

Productivity gains are the key to improving living standards—the government's primary economic objective. The government recognizes that the private sector is the principal source of economic growth and rising prosperity. However, the government does have an important role to play in fostering a positive business climate and making strategic investments in postsecondary education, public infrastructure and services. Underpinning the government's ability to promote economic prosperity is a firm commitment to fiscal discipline. The government's plan to restore fiscal discipline to Ontario is outlined in Paper A, *Investing in People—Managing Ontario's Finances*.

This paper outlines the government's economic strategy to secure the investments in both people and capital that will foster productivity improvements and achieve the potential of Ontario's economy to create more jobs and higher incomes. These results could be enhanced by the active co-operation of the federal government in pursuing policies that recognize that a strong Ontario economy means a strong Canadian economy.

The key elements of the government strategy for making progress towards a new generation of economic growth include:

- new $6.2 billion cumulative investment by 2009-10 in Reaching Higher: The McGuinty Government Plan for Postsecondary Education, to create quality higher education, improve access and ensure Ontario's colleges and universities remain competitive with the best in the world;
- investing in roads, bridges, public transit, water and sewage treatment, hospitals, schools, colleges, universities and other capital projects through a five-year public infrastructure plan with a total value of more than $30 billion;
- taking steps to ensure a reliable, sustainable electricity supply, including the development of new sources of clean, renewable power and initiatives to encourage conservation;
- maintaining a competitive tax and business environment;
- modernizing the regulatory environment to strike the right balance between business needs and the public interest in the rapidly evolving global market;
- targeting investments in key sectors to capitalize on Ontario's strengths and promote productivity improvements;

- increasing Ontario's public research and development investments and proposing to establish the Research Council of Ontario, strengthening regional innovation networks and marketing Ontario as a leading North American jurisdiction for scientific research and innovation;
- achieving the potential of Ontario's regions and municipalities to contribute to economic growth and prosperity; and
- helping new Canadians and internationally trained professionals integrate more rapidly into the Ontario economy.

Details of the government's economic strategy are presented in the following sections:

- Section I describes Reaching Higher: The McGuinty Government Plan for Postsecondary Education as well as measures to help new Canadians enter the labour force more quickly;
- Section II focuses on encouraging business investment, key sector initiatives and modernizing regulation;
- Section III describes government strategies to promote growth and innovation through improved co-ordination of research;
- Section IV outlines a fiscally responsible approach to strategic infrastructure investments; and
- Section V describes strategic measures that the government is taking to support effective participation of Ontario's cities and regions in the next generation of economic growth.

The Appendix provides the macroeconomic projections that underlie the 2005 Budget fiscal plan.

Section I: Knowledge and Skills: Key to Economic Prosperity

An educated and skilled workforce provides the key competitive edge for Ontario in the 21st century. In coming years, the brains and know-how of the workforce will provide ideas and skills to drive an innovative economy—one that is able to respond to challenges and seize opportunities in a fast-paced global market. Knowledge workers act as a magnet for leading-edge firms seeking to invest in new ideas. In addition, workers with up-to-date skills can make the most of emerging technologies and contribute to a more productive economy that can compete successfully for international investment capital.

Industries and occupations are constantly evolving and requiring new skills. What is new today is the level and breadth of knowledge and skill necessary to prosper. Ontario's workers and employers must be flexible and responsive to succeed in the global marketplace. With recent education investments by other jurisdictions, an increasingly competitive global economy and the relentless advance of new technologies, Ontario must also ensure that its institutions of higher learning that educate the skilled workers required are competitive with the best in the world.

The emerging challenges of the global marketplace are compounded by the fact that Ontario's labour force is aging and forecast to grow more slowly over the next few decades. Although Ontario's population is relatively younger compared to European countries and Japan, it is projected to age faster than that of the United States, mainly because of a lower fertility rate.

Baby Boom Will Drive Aging of the Population and Slower Labour-Force Growth

- The baby-boom cohort, which comprises one-third of Ontario's population, is starting to approach retirement.
- Baby boomers will begin to turn 65, starting in 2011. Seniors will make up 22 per cent of the population by 2031, compared to 13 per cent now.
- The working-age population will also be older: the share of those aged 50+ is projected to rise from 37 per cent in 2005 to 48 per cent in 2031 while the share of youth will fall from 17 per cent to 13 per cent.
- The number of people turning age 65 will, for the first time, outpace youth turning age 15 in 2017.

This demographic challenge requires labour-market policies that unlock the full potential of Ontario's working-age population so that slower labour-force growth will not be a drag on the economy in years to come. This means ensuring that educational institutions equip people with the leading-edge expertise and skill sets required to contribute to Ontario's economy. It means knowledge and skills must be kept current through lifelong learning and on-the-job training. It means making full use of new Canadians' skills. It also means encouraging the broadest labour-force participation of the working-age population, including older workers who want to work for as many years as they are willing and able, and youth with little education and poor job prospects.

Reaching Higher: The McGuinty Government Plan for Postsecondary Education

In the 2005 Budget, Ontario is making an essential strategic investment in the knowledge and skills of Ontario's workforce that will translate into competitive advantage and economic growth.

Strong People, Strong Economy

"Ontario will be *the* place to be when our citizens are equipped to compete with people all over the world for the best jobs and investment. We will build a prosperous economy that is grounded in the knowledge and know-how of our people. Improving the quality of our workforce spurs economic growth and stimulates investment in innovation and better public health care. Strong people build a strong economy." —Getting Results for Ontario, Premier's Progress Report, 2004.

Reaching Higher is a comprehensive plan for postsecondary education and training—one that improves access, one that values quality teaching, research and student experience, and one that supports economic prosperity and a higher standard of living.

Paper A, *Investing in People—Managing Ontario's Finances*, describes new cumulative investments of $6.2 billion, including an additional $683 million in 2005-06, rising to $1.6 billion by 2009-10. This will represent a 39 per cent increase in funding by 2009-10 compared to the 2004-05 funding base. It means that funding available for student assistance will more than double, from $332 million in 2004-05 to $690 million by 2009-10.

Reaching Higher will result in higher quality education and greater accountability. Students will benefit from greater job opportunities and higher incomes after graduation and their knowledge and skills will create the economic growth of tomorrow.

The government's new investments will be tied to performance and results. The Reaching Higher plan will see:

- 135,000 students benefiting this year from new low-income tuition grants and other enhancements to student assistance;
- a significant increase in the number of students enrolled in postsecondary education institutions;
- 14,000 more graduate students by 2009-10; and
- more qualified doctors through a 15 per cent expansion of first-year medical spaces.

The investments will also result in more faculty, assured quality teaching and an improved student experience; increased access and success for francophones, aboriginals, and persons with disabilities; and improved public reporting of system-wide results.

Reaching Higher: The McGuinty Government Plan for Postsecondary Education

Total New Investment

- New cumulative investments of $6.2 billion by 2009-10. Additional new investments of $683 million this year, rising to $1.6 billion by 2009-10 over the 2004-05 funding base.
- Represents a 39 per cent increase, including a doubling of funding available for student financial assistance compared to 2004-05.

Access

- Significantly increase the number of students enrolled in postsecondary institutions.
- $358 million additional funding for student financial assistance by 2009-10; $192 million of new funding in 2005-06.
- New low-income tuition grants, in partnership with the federal government and the Canada Millennium Scholarship Foundation, higher weekly loan limits and reduced parental contributions, benefiting 135,000 low- and medium-income students in 2005-06.
- $50 million annually for the Ontario Trust for Student Support to match private-sector contributions to create endowments for student support.
- $100 million to create endowments at universities that will provide fellowships for outstanding graduate students.
- $55 million annually by 2009-10 to improve access and success of under-represented groups.
- $20 million annually by 2007-08 for northern and rural colleges to increase opportunity and ensure quality.
- A strategy to attract more international students and encourage study abroad for Ontario students.
- $220 million new investment annually by 2009-10 to expand graduate education by 14,000 students.
- $95 million new funding to improve medical education and expand first-year spaces by 15 per cent by 2008-09.
- Capital support to expand graduate and medical school facilities.
- $20 million annually by 2007-08 for new apprenticeship initiatives and other investments for new Canadians.

Quality

- $1.2 billion or a 35 per cent additional investment in operating grants by 2009-10—supporting enrolment growth, hiring faculty, improving student resources, expanding graduate education and enhancing student experience.
- A proposed Research Council of Ontario to co-ordinate research priorities.
- $25 million to endow new faculty chairs for research and to improve graduate education.

Accountability

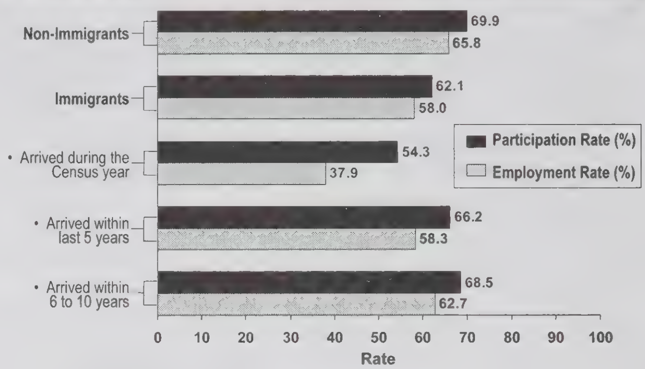
- A proposed Higher Education Quality Council of Ontario to take a lead role on system performance and measures.
- New bilateral performance agreements with all public institutions to improve accountability.

Integration of New Canadians into the Labour Market

The government is also investing in enhanced services to help new Canadians enter the labour market more quickly.

Ontario welcomes about 125,000 new Canadians every year, fully half or more of all new Canadians. While new Canadians tend to arrive with even stronger educational credentials than the Ontario population as a whole, many new Canadians encounter barriers to working to their full potential. According to Statistics Canada, recently arrived immigrants have lower employment rates and lower earnings than those who arrived in previous decades.

Participation & Employment Rates, Immigrants & Non-Immigrants, Ontario, 2001



Source: Statistics Canada, 2001 Census.

New Canadians already account for a significant proportion of net labour-force growth. As the population ages and fertility rates continue to be low, this will increase to the point that, within the next decade, new Canadians may be the only source of net labour-force growth. With current and expected shortages in many occupations and skilled trades, Ontario's economy must utilize new Canadians' potential.

The government has made progress in removing barriers to credential recognition, working with 36 occupational regulators. Ontario has funded over 35 bridging support and employment projects to integrate new Canadians more quickly into Ontario's labour market and has implemented the successful International Medical Graduates Ontario system to train and license foreign-trained physicians.

New Training Investments

Additional investments outlined in this Budget will help expand the apprenticeship system, improve job prospects for new Canadians, and create new opportunities for at-risk youth. An effective partnership with the federal government and signed labour-market and immigration agreements would provide important new resources to deliver on Ontario's labour-market priorities.

New Training Investments

- $10 million in 2006-07, rising to $17.5 million annually by 2007-08, for new services for new Canadians and prospective apprentices, including outreach, assessment, pre-apprenticeship and academic upgrading, as part of the new One-Stop Training and Employment System.
- Labour Market Integration Assistance for New Canadians
  - $2.5 million annually for expansion of Bridge Training programs that help skilled new Canadians move quickly into the labour market;
  - $4 million over the next two years for colleges to pilot re-engineered processes and programs to help new Canadians access college education and jobs; and
  - $1 million over two years to pilot programs to encourage employers to better recognize the skills of new Canadians.

The initiatives in this Budget build on training programs announced in the 2004 Budget with new investments that reinforce the government's priorities.

Current Training Initiatives and Results

Commitments:	Results to Date:
♦ $11.7 million by 2006-07 to expand apprenticeship.	♦ Exceeded target of 19,000 new registrants in 2004-05. On target to increase new registrants by 7,000, reaching 26,000 in total per year by 2007-08.
♦ $95 million Apprenticeship Training Tax Credit to encourage employers to hire more apprentices. Up to $15,000 available over the first three years of an eligible apprenticeship.	♦ Tax Credit legislated and endorsed by employer groups.
♦ $15 million annual funding by 2007-08 for new academic upgrading and training options for early high school leavers.	♦ Already provided academic upgrading opportunities for about 800 at-risk youth and adults. Will serve 6,000 at maturity.
♦ $12.5 million by 2005-06 to expand Bridge Training and other employment services for new Canadians to enter the workforce.	♦ Over 35 Bridge Training projects. Enhanced language training for 3,000 people. Information and referral for 5,000 clients and more intensive employment services for 650 through Job Connect.
♦ Eliminate barriers to credential recognition and job entry for new Canadians.	♦ Released "Opening Doors—An Investment in Prosperity" in January 2005, reporting on progress made in a number of professions and trades.
♦ $4.5 million by 2005-06 for scholarship/employer bonuses for high school leavers entering apprenticeship.	♦ Program implemented and first 100 scholarship recipients identified.

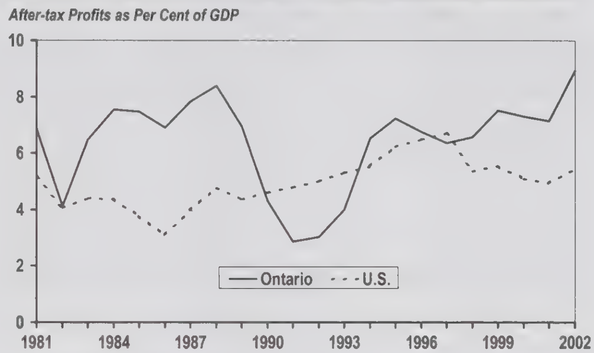
♦ Design and implement new One-Stop Training and Employment System.	♦ Consultation and planning underway.
♦ $111 million annually for Job Connect labour-market training and support services.	♦ 129,000 people, largely youth, served by Job Connect in 2004-05. 80 per cent found a job or went on to further education and training.
♦ $52 million annually for Ontario Summer Jobs Strategy.	♦ More than 61,000 young people found summer jobs or started their own businesses in 2004-05.
♦ JobsNow, an innovative pilot project in six communities to help people leave welfare for work.	♦ Approximately 1,500 jobs already identified and first job placements underway.

Section II: Encouraging Business Investment

The Ontario Government recognizes that the private sector is the principal source of economic growth and increasing prosperity. Businesses assess a large number of factors in deciding where to invest, including the quality of government services, infrastructure and, above all, the skills of the workforce.

One of the government's principal goals is to make Ontario more attractive to investors. To achieve this, Ontario has to compete by finding the right balance between taxation and government services and by delivering excellent value in the services provided.

Ontario's Corporations Are Highly Profitable



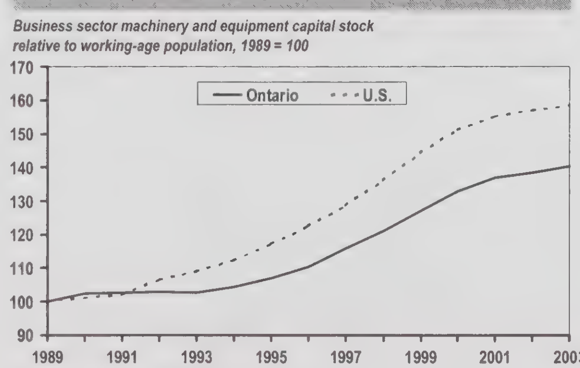
Sources: Data from Statistics Canada PEA, and U.S. BEA.

Studies looking at the total cost of doing business, including all taxes paid by firms, have found that costs in Ontario are lower than in the United States. This has resulted in a favourable level of profitability for corporations operating in Ontario. In fact, corporate after-tax profits are a higher share of GDP in Ontario than in the United States. One of Ontario's key benefits is its publicly funded health care system, which provides its exporters with a substantial cost advantage relative to their U.S. competitors. A 2002 survey for the Ontario Chamber of Commerce suggests that almost two-thirds of respondents consider our health care system to be a competitive advantage. In contrast, U.S. firms are increasingly concerned about how their health care system is affecting U.S. competitiveness.

"The cost of health care in the U.S. is making American businesses extremely uncompetitive vs. our global counterparts."
— G. Richard Wagoner Jr., Chairman and CEO, General Motors Corporation

New capital investment is critical, bringing with it new technology that allows work to be done more efficiently, and enabling companies to increase the wages and salaries they pay to their employees. New capital investment also creates more and better jobs.

Capital Investment in Ontario Lags the U.S.



Sources: Statistics Canada and BEA.

Ontario does, however, face challenges over the next few years. Existing competitors in Canada and around the world are actively pursuing opportunities to attract innovative, high-value investments and new competitors are emerging as technology links more and more countries around the globe. Moreover, Ontario's cost advantages

have been narrowed by an appreciation of the Canadian dollar of about 25 per cent against the U.S. dollar since January 2003.

By investing in education and training, pursuing opportunities for targeted, strategic investments and supporting continuous improvement in the business environment by modernizing regulation, the government is acting to meet these challenges.

Corporate Taxation

Ontario already has a competitive level of corporate tax rates. The rates remain lower than those in the neighbouring states of the United States. In addition, Ontario is proceeding with phasing out the capital tax, a tax widely acknowledged as detrimental to the investment climate. Ontario also has a very favourable tax rate for small business corporations, which provides strong encouragement to entrepreneurial individuals to start new businesses.

To further support business investment, this Budget proposes to parallel recently announced federal regulatory changes, to align the capital cost allowance (CCA) rates with the useful life of assets and to encourage investment in assets used to generate efficient and renewable energy, subject to federal implementation.

Sector Advantages and Strategies

Today, Ontario's skilled workforce, competitive business costs and superior quality of life are tremendous advantages with the potential to attract more international firms seeking access to U.S. markets.

- Ontario's top 10 manufacturing export industries enjoy a major labour skills advantage, particularly in college credentials, as about 48 per cent of their workforce have completed postsecondary education (33 per cent college and 14 per cent university). In the United States, only 32 per cent of the workforce in these industries have completed a similar level of education (nine per cent college and 23 per cent university).
- This skills advantage is enhanced by a labour cost advantage (including health care costs)—seven out of the top 10 manufacturing export industries have a labour cost advantage compared to the United States, ranging as high as 19 per cent for computer and electronics, 16 per cent for the auto sector and 15 per cent for chemicals.

Ontario's Top 10 Manufacturing Export Industries Have a Substantial Skills Advantage (2001)*

	Per Cent of Workforce with Completed Postsecondary Education				
	Ontario's Skills Advantage*	College Ontario	College U.S.	University Ontario	University U.S.
Motor Vehicle & Equipment	**16**	32	8	10	19
Chemical	**12**	33	7	28	41
Machinery	**27**	47	12	13	21
Primary Metals	**25**	38	8	8	14
Computer & Electronic	**16**	33	11	38	44
Plastic & Rubber	**13**	26	8	11	16
Food	**19**	26	5	12	14
Pulp & Paper	**16**	33	8	9	17
Fabricated Metals	**25**	39	8	9	13
Furniture	**18**	26	8	10	10
Total	**16**	33	9	14	23

* Per cent of Ontario's workforce with completed postsecondary education minus that of the U.S. Ages 25 and older.
Numbers do not add due to rounding.
Sources: Statistics Canada (Census), Bureau of Labour Statistics (CPS) and Ontario Ministry of Finance comparisons based on OECD standardized educational attainment categories.

Recently released Statistics Canada data[1] show that, over the past five years, Ontario (with 41 per cent of Canada's GDP) attracted 50 per cent of all the machinery and equipment (M&E) investment by foreign investors in Canada. Of all the M&E investment undertaken in Ontario, 39 per cent was by foreign owners. Much of this is in the form of expansion by companies that are already located in Ontario, rather than by new enterprises. Both kinds of investment are important.

However, the Province must continue to invest and innovate in order to remain competitive. Postsecondary and training initiatives are such investments. Strategic public investments can also enhance the competitive advantages of key sectors.

The Ontario Automotive Investment Strategy is bolstering the economy's strong and productive automotive industry through investment in innovation and skills. This will consolidate the foundation for Ontario's leading position in this important industry, with the best-educated, most highly skilled, productive workforce in North America. Supporting the industry's progress in developing innovative

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1 *Foreign and Domestic Investment in Canada*, Catalogue no. 61-232-XIB, February 2005.

processes and technology, the government has committed up to $235 million for GM Canada and $100 million for Ford Canada, leveraging investments totalling $2.5 billion by General Motors and over $1 billion by Ford.

Ontario agriculture enjoys a favourable climate and soils, and proximity to major markets, but has been challenged recently with low grain and oilseed prices and with the interruption of cattle and beef trade.

To help keep the agri-food sector positioned for success, the government has provided over $170 million in support for grain and oilseed farmers, as well as up to $30 million announced last fall to help the cattle industry recover from export restrictions. To enhance consumer confidence in Ontario's meat products, the government is tightening meat safety standards and has provided $25 million to help meat processors meet the new requirements.

Creative industries and people are an emerging engine of economic growth, contributing to dynamic and cohesive communities.

The Entertainment and Creative Cluster comprises the arts, cultural media industries (e.g., publishing, sound recording, film and television production, interactive digital, video game developers), related high-tech companies (e.g., software and post-production houses) as well as independent artists, authors, musicians and filmmakers. There are also extensive linkages with fashion, architecture, graphic and industrial design sectors.

By building on the creativity and diverse skills already found here, the creative industries in Ontario can be leaders in the global marketplace. By targeting the convergence of creativity and technology and broadening the audience for cultural output developed in Ontario, creativity-based enterprises are catalysts for economic growth.

Actions to Support an Entertainment and Creative Cluster

- In addition to enhanced tax incentives for film and television production announced in December 2004, this Budget proposes enhancements to the tax incentives for sound recording, book publishing, interactive digital media and computer animation to promote a competitive and stable environment in which to produce innovative cultural products.
- Strategic investments of $10 million in the Canadian Film Centre and $5 million for the Royal Conservatory of Music's Learning Through The Arts program will support training opportunities to nurture creative talent as the foundation of the next generation of culture and media.
- Provincial commitments to highlight Ontario's cultural renaissance and spirit of diversity will increase cultural tourism. The Lord of the Rings stage show will make its world première early next year in Toronto. Assisted by a $3 million Provincial loan, the show will reinforce the province's international reputation as an entertainment leader. To build on the Toronto International Film Festival's success, the Province has committed $25 million towards a permanent home for the Festival, which has been matched by federal funding.

One of the ways that the creative arts supports economic growth is by attracting tourists to Ontario. The unveiling of new facilities and visions by several major cultural institutions in 2006, such as the Royal Ontario Museum, Canadian Opera Company and Gardiner Museum of Ceramic Arts, will encourage more visitors to experience all that Ontario has to offer.

In line with these moves, Ontario's position as an attractive destination for tourists is bolstered by a new casino in Niagara, which opened in 2004. In addition, $400 million has been committed for improvements to Casino Windsor to encourage economic growth and revitalization opportunities.

The mining industry is benefiting from strong global demand. New opportunities for diamond mining are creating a new industry in the north. Ontario offers potential for other new mineral discoveries as well and continues to spur grassroots mineral exploration with a flow-through share tax credit, in contrast to the elimination of this credit by the federal government in December 2005. As well, the Budget is announcing a $15 million initiative to expand geological surveying in the north.

Modernizing Regulation

In today's global economy, governments' regulatory reach is pervasive and often overlapping, affecting diverse areas such as justice and property rights, competition, health and safety, labour relations, environment, land use and financial markets. Achieving the correct balance in regulation is critical to unlocking the potential of businesses to adapt to changing markets and seize profitable opportunities to create income while protecting the public interest.

There is considerable international evidence that businesses view the regulatory environment as an important factor when making global investment decisions. Several organizations undertake annual comparisons of interjurisdictional competitiveness, some more specialized in scope than others, but all pay attention to regulatory features.

The OECD studies the regulatory environment in industrialized countries. It has noted the importance of flexible, performance-oriented regulatory standards, which allow business to choose the most efficient means of achieving outcomes. This includes a greater role for self-regulatory processes, such as industry-led standards development and formal self-regulatory organizations (SROs).

One of the critical issues for companies and foreign investors is the efficiency, effectiveness and fairness of business and financial services regulation. To secure Ontario's position as an attractive and secure place to invest, regulators need to continue to move forward to modernize regulation and keep up with a changing global marketplace.

- Ontario's recently announced Small Business Agency will help small business grow and succeed by promoting regulatory best practices, streamlining paperwork and ensuring that small business interests are considered as part of the government's decision-making process.

- Ontario will work closely with the federal government on its Smart Regulation initiative. This effort is intended to lead to better regulations that safeguard the interests of Canadians while securing the right conditions for economic growth.
- Ontario is pursuing initiatives to modernize business law in areas such as commercial and securities law, mortgage brokering and credit union regulation.

Modernizing Financial Regulation to Support a New Generation of Economic Growth

- Modern business laws must reflect current market realities and embody high standards of investor protection and corporate governance. An updated commercial law framework would support a competitive business environment that attracts investment and ensures prosperity for the people of Ontario.
- The Minister of Consumer and Business Services will be leading the implementation of a multi-year plan to update Ontario's commercial law framework. Later this year, updated securities transfer legislation will be introduced to address the legal uncertainty that now exists and enhance the competitive position of Canada's capital markets and securities firms. Changes will be proposed to conform Ontario's corporate and securities laws and to reconcile inconsistencies and eliminate duplication. Longer term, comprehensive legislation to modernize Ontario's corporate laws to improve governance and accountability will be developed.
- The government has already responded to several of the recommendations of the Standing Committee on Finance and Economic Affairs (SCFEA) Report on the Five Year Review of the Securities Act. Responding to a key recommendation, legislation was passed in 2004 to allow the government to implement broader rights for investors to sue public companies for disclosing false or misleading information. The government remains committed to quickly completing the final steps needed to implement this change, including the associated regulation changes.
- The Chair of Management Board is leading work to ensure that, later this year, the next round of legislative changes to respond to the SCFEA Report, including some that would support moving to a common securities regulator, will be introduced. Longer term, updated legislation that could serve as the basis for the common set of securities' laws to underpin a common securities regulator will be introduced.
- A common securities regulator is key to making Canada's capital markets more competitive and more efficient. It would reduce the regulatory burden on companies and lead to better and more consistent enforcement, which means greater protection for investors. That would help attract investment to all provinces and territories and help ensure that businesses can access the capital they need to grow and expand.
- The government reaffirms its 2004 Budget commitment to introduce a bill to replace the *Mortgage Brokers Act* in 2005. Following consultations on a discussion paper, in March 2005, the government released for public comment a consultation draft of the *Mortgage Brokerages, Mortgage Lenders and Mortgage Administrators Act* along with draft licensing regulations. The proposed legislation would improve consumer protection, streamline regulatory requirements, ensure cost-effective regulation, and harmonize with other regulatory bodies and jurisdictions where appropriate.
- The review of the *Credit Unions and Caisses Populaires Act* is well underway. The government has been working with the sector to identify proposed changes to the legislation that would modernize the rules and enable credit unions and caisses populaires to better serve their customers and compete in the financial services marketplace. The government reaffirms its intention to introduce amendments to the Act by the fiscal year ending 2006.

- The government is also proposing to update pensions legislation to facilitate the effective administration of multijurisdictional and jointly sponsored pension plans.

Modernizing Pension Regulation

Employment Pension Plans

- Ontario intends to introduce amendments to implement an accord being discussed between Ontario and Quebec on common pension standards for employment pension plans with members in both provinces. With the assistance of the Canadian Association of Pension Supervisory Authorities (CAPSA), the proposed Ontario-Quebec pension accord is expected to serve as a template for an expanded Canadian agreement, thus simplifying pension regulation for employers with employees working in more than one jurisdiction.

Jointly Sponsored Pension Plans

- The *Pension Benefits Act* (PBA) was written with traditional sole sponsorship, defined benefit pension plans in mind where the employer is solely responsible for making special payments in respect of a going-concern unfunded liability or solvency deficiency. The PBA assumes that plan members are not responsible for making such payments.

- With the establishment of Jointly Sponsored Defined Benefit Pension Plans (JSPs), conflicts may exist between some of the provisions of these plans and the PBA requirements. In order to address these conflicts, the Province will issue a discussion paper that will identify areas of conflict and propose solutions. Legislation to amend the PBA to address these issues will be introduced in the fall and, if approved by the legislature, it is expected that the changes will be in effect before year-end. Amendments to the PBA Regulation would also be required.

- The *Teachers' Pension Act* (TPA) already includes provisions that address some but not all of the identified conflicts. It is proposed that these provisions in the TPA be amended or repealed at the same time as the PBA amendments come into force, as the amendments to the PBA would provide consistent rules for all JSPs.

In February 2005, the Chair of Management Board announced the establishment of a panel of knowledgeable and well-respected individuals from across the country to advance the design of a common securities regulator and demonstrate how it can serve the needs of all provinces and territories. The panel is chaired by Purdy Crawford, an eminent lawyer and corporate leader.

Canada is the only developed nation without some form of national securities regulator. Other countries recognize that deep pools of capital, with broad and active participation of investors and listed companies, are necessary for competitive and effective equity markets.

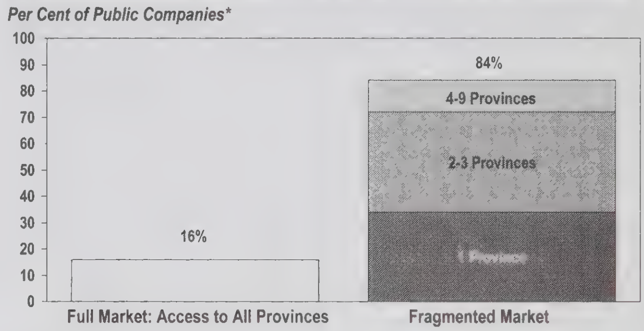
Canada's equity market is only six per cent of the size of the equity market in the United States, our most critical competitor. Only a small proportion of Canadian public companies have access to this larger U.S. pool. Within Canada's relatively small market, only 16 per cent of public companies benefit from access to investors in all provinces.

Fragmented securities regulation means it is unusually difficult and costly for the remaining 84 per cent, mainly small and medium-sized public companies, to raise money. They have access to a limited number of potential investors. These companies have a substantial inherent disadvantage in raising capital relative to their U.S. competitors.

Canada needs a common securities regulator to realize the economic growth opportunities that are created by a competitive and effective equity market. A common securities regulator, a common body of securities law and a single fee structure with fees set on a cost-recovery basis would provide companies and investors with:

- a common interpretation and consistent application of regulatory requirements, which makes compliance more straightforward;
- more effective enforcement of securities laws and therefore greater protection for investors;
- the largest possible capital pool for small and medium-sized public and private companies, wherever they may be located across Canada;
- fewer lost financing and investment opportunities that arise now from delays and complexities of dealing with a number of different laws and regulators;
- one set of clear, consistent protections that is easy for investors to understand; and
- cost-effective regulation.

Few Canadian Public Companies* Have Access to the Full Canadian Market



* Reporting Issuers
Sources: Ontario Ministry of Finance based on OSC data.

Section III: Research and Innovation for Economic Growth

Research and innovation are important drivers of economic growth. Through their investments in research and development (R&D), business, governments and research institutions all play key roles in increasing Ontario's innovation capacity.

Public institutions, such as universities, colleges and hospitals, account for about one-quarter of the total R&D performed annually in Ontario, while business accounts for almost all of the rest. Governments provide a competitive R&D tax regime and other incentives to business plus direct funding to institutions undertaking R&D activities.

The 2004 Premier's Progress Report noted a Provincial commitment of $1.8 billion over four years to support both research and commercialization through Ontario's public and not-for-profit R&D institutions. Continued R&D investment is critical to increasing Ontario's innovation capacity, but more can be done. Ontario must encourage partnerships and co-ordination among business, governments and institutions to lever the benefits of R&D investment and bring discoveries to market. This is essential if Ontario is to compete with other jurisdictions, especially in the United States, which can spend more on R&D as a share of economic output partly due to the larger U.S. federal commitment to research (including military).

Greater Research and Commercialization Investment

The new Ontario Research Fund (ORF) will consolidate several Ontario research programs that have been funded separately in the past, totalling $730 million to 2007-08, for new and ongoing research commitments. This includes the new $300 million investment in research infrastructure announced by the Premier last fall.

A consolidated Ontario Research Fund will provide operating, capital and overhead funding to support leading-edge R&D in Ontario's research institutions. Priority will be given to research in key economic sectors, including automotive, agriculture, advanced manufacturing technologies, biotechnology, information and communications, alternate energy/fuel cells, environmental technologies and nanotechnology. The Fund will also support efforts to connect youth to researchers, and attract, develop and retain world-class research talent.

Also, the government is moving towards a more co-ordinated, stable cancer research system in the province by consolidating the new Cancer Research Program with the existing Ontario Cancer Research Network.

The Cancer Research Program will build on Ontario's existing strength in cancer research by developing a "critical mass" of cancer researchers. Working in partnership with the cancer research community in Ontario, this program will help make Ontario a recognized, leading jurisdiction in cancer research that will retain and attract the best researchers and clinicians to the province. The program will focus on supporting leading-edge cancer research across disciplines; multidisciplinary population studies of causes; prevention and early detection of cancers; translating research into programs, technologies and therapies; and working with industry to commercialize research results. Through 2007-08, the Province of Ontario will commit $142 million for cancer research.

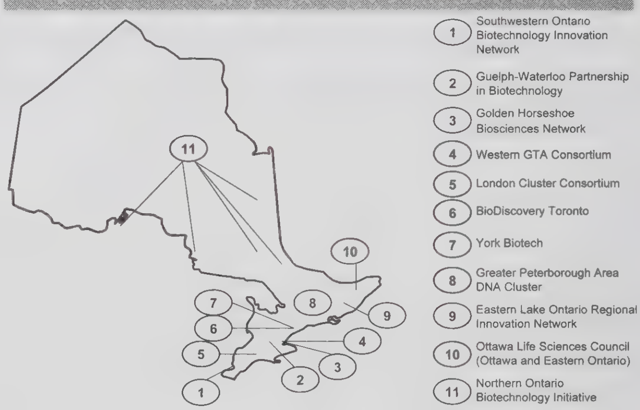
The Minister of Economic Development and Trade will announce the details of the ORF, including a call for proposals, and the Cancer Research Program in the near future.

As the next step, the Ontario Government proposes to establish a Research Council of Ontario. The Research Council of Ontario is a strategic economic initiative of the government to help make Ontario a North American leader in research and to promote the province's innovation opportunities to the world.

Through greater co-ordination and alignment of public research and commercialization investments, and better dialogue with industry to identify research areas and opportunities of mutual interest, Ontario's economy can realize a greater productivity boost than it otherwise would. Details of the new Council will be announced in the fall of 2005.

Complementing the proposed Research Council of Ontario is a new commercialization framework based on a system of "regional innovation networks." These are multi-stakeholder, regional development organizations established with Provincial funding that support partnerships among business, institutions and local governments to promote innovation. While initially focused on the life sciences, Ontario's 11 active regional networks are expanding into other areas of innovation excellence such as information technology, energy conservation, and advanced materials—depending on their local strengths and opportunities.

Ontario's Commercialization Framework: A System of Regional Innovation Networks



One of the benefits of these networks is that they can bring commercialization services closer to the clients that need them—small firms, researchers, entrepreneurs and investors. The regional networks can also facilitate access to other commercialization resources, including the Ontario Centres of Excellence, the new Medical and Related Sciences (MaRS) centre, the Ottawa Centre for Research and Innovation, and Communitech.

Local Science for Global Impact

The following are some examples of how the Ontario Government will strengthen regional capacity for innovation:

- $10 million will help support the establishment of the McMaster Innovation Park, to be built on a former industrial "brownfield" site in Hamilton. The new park will become a focal point for industry, governments and institutions working together to support research excellence and innovation in advanced materials and manufacturing, nano-technology and bioscience.
- The Ontario Government has provided support for the expansion of the Sudbury Neutrino Observatory Institute, a world-renowned, state-of-the-art research centre. Retail sales tax relief was provided on the Institute's purchase of research equipment for its International Facility for Underground Science project.
- Over three years, the provincial government is investing $6.5 million in the Medical and Related Sciences (MaRS) centre to help market Ontario's technology opportunities to the world.
- A $3 million endowment to establish a research chair at the University of Guelph, which is one of Canada's leading universities in bio-agricultural research. The government will also provide $3 million to the University of Toronto to establish a research chair in productivity and competitiveness.

Increasing Commercialization of Research

By strengthening linkages between business and institutions at the regional level, Ontario's new commercialization framework will also play a pivotal role in creating business opportunities for the province's venture capital market.

Venture capital is an essential ingredient for commercializing new technologies. While the venture capital market in Ontario has matured substantially over the past two decades, it is often a challenge to raise capital in the earlier stages of high-risk technology businesses, especially those coming from research in universities and hospitals.

The recently established Ontario Commercialization Investment Funds program will encourage research institutions to partner with accredited investors in commercializing research developed by faculty, staff and students. As well, the Ontario Research Commercialization Program will help researchers and institutions develop their inventions to an "investor-ready" state.

While these programs are being implemented, the Ontario Government will continue examining other focused approaches to overcoming bottlenecks in the commercialization of research and the creation of new businesses. In addition, the government is studying the broader venture capital market, and the role of Labour Sponsored Investment Funds (LSIFs) within the industry. The review of the LSIF program, which the government announced in the 2004 Budget along with a moratorium on new registrations, has been proceeding over the past year. It is expected that the results of this review will be released later this spring.

Overall, the benefits from Ontario's new commercialization framework will depend on a strong supportive climate for business innovation. Through modern smart regulation and various tax improvements, the government has taken steps to help financial markets work better.

Regulatory and Tax Environment Supports Innovation

The regulatory and tax environment in Ontario has improved dramatically over the past two decades, making private equity markets much more attractive to risk-taking in venture investments:

- the Ontario Securities Commission (OSC) has modernized its regulations to facilitate access to capital for small businesses from accredited investors and capital pools;
- federal and provincial investment regulations affecting institutional investors, such as pension funds and insurance companies, have been modernized since the mid-1980s to allow a more flexible "prudent portfolio" approach to investments;
- the combined federal and provincial capital gains tax has been cut almost in half, and the capital gains rollover provisions for angel investors have been substantially improved; and
- the federal tax regime governing foreign investment has been liberalized since 2000.

Section IV: Strengthening Infrastructure, the Foundation of Ontario's Economy

For Ontario's economy to reach its full potential, it must be supported by an effective system of physical infrastructure—one that provides efficient transportation for goods and people, clean drinking water and adequate, reliable power supplies. In order to effectively support higher living standards, infrastructure investments must strike a balance between the needs of Ontario's open, export-oriented economy and considerations such as public health and the environment.

The government has important roles as both a provider and co-ordinator of physical infrastructure. However, as noted in Paper A, *Investing in People—Managing Ontario's Finances*, Ontario faces a challenging fiscal environment that must be addressed in a responsible, balanced manner.

The Province's five-year infrastructure plan includes major new investments in health, education and the economy. The total value of these investments is more than $30 billion.

Ontario's Five-Year Infrastructure Plan Highlights

- Funding new, upgraded and expanded hospitals to reduce wait times, provide better services in high growth areas, and modernize older hospitals.
- A substantial expansion of graduate school spaces to accommodate the double cohort as it progresses through the system, as well as new medical school spaces to expand the supply of doctors.
- A multi-year investment in elementary and secondary school renewal that is expected to generate $4 billion in investments in the next few years.
- An enhanced Canada-Ontario Affordable Housing Program that will help create over 15,000 new units of affordable housing, including housing in remote communities and supportive housing for victims of domestic violence and for persons suffering from mental illness.
- Substantial improvements in border infrastructure to foster increased trade with the United States and make travel across the border quicker and easier.
- Continued high levels of transit investment in partnership with other levels of government: $1 billion over 10 years for GO Transit expansion and renewal, $1 billion over five years for the Toronto Transit Commission, and $600 million for the Ottawa O-Train.
- The first round of projects under the new Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF), which will stimulate up to $900 million through federal, Ontario and municipal contributions. Many local water, wastewater, road and bridge projects will be funded in rural communities and small urban centres.
- Meeting the government's 2004 commitment to invest $300 million over four years in research infrastructure, so that Ontario's universities, hospitals and research institutes can continue to attract the best and the brightest, and help the economy grow.
- Acceleration of the four-laning of both Highway 11 and Highway 69 in northern Ontario.
- Highway expansion projects to support economic growth, relieve congestion and address significant safety issues in southern Ontario.

In addition, another round of financing is planned by the Ontario Strategic Infrastructure Financing Authority (OSIFA), an innovative loan program that is helping communities renew infrastructure of local importance, such as clean water, public transit, and roads and bridges.

Despite this significant investment, the need for capital in areas such as health, the environment and transportation remains substantial. The government will also consider the potential for strategic asset management initiatives. The Province will be guided by protecting and promoting the public interest, value for money and meeting government priorities. Net proceeds from asset sales will not be used for ongoing operating expenses and, as a first priority, will be invested in infrastructure improvements.

ELECTRICITY

A reliable, sustainable and diverse electricity sector is vital to building a strong and prosperous Ontario. Last year, the government passed the *Electricity Restructuring Act, 2004* to reorganize Ontario's electricity system to more effectively address the critical need for new supply, boost conservation and increase price stability for consumers across Ontario. The Act created the Ontario Power Authority (OPA) with a mandate to ensure an adequate, long-term supply of electricity and a Conservation Bureau led by the province's first Chief Energy Conservation Officer.

By 2020, Ontario will need to refurbish, rebuild, replace or conserve approximately 25,000 megawatts of generation to meet the province's growing demand. The government has taken steps to create new, clean, reliable and affordable sources of electricity supply, including working with its neighbours to the east and west to explore developing further hydroelectric projects to address the province's long-term supply needs.

To ensure power is delivered where it is needed, Hydro One, the company that owns the bulk of Ontario's transmission system, is currently investing in upgrades to meet growing demand and connect new generation projects to the grid.

- New supply projects will develop a diverse array of power sources and have the potential to add over 5,000 megawatts of new supply projects in Ontario.
  - On April 13, 2005, four new electricity projects, including a cogeneration project, two new gas-fired generation plants and one demand response project, were approved with a total capacity of 1,675 megawatts.
  - In November 2004, the government approved projects that will provide Ontarians with 395 megawatts of clean, renewable energy from such sources as wind, waterpower, landfill gas and biogas.
  - Construction of the Niagara Tunnel, which will carry water from the Niagara River to OPG's Sir Adam Beck generating complex, is expected to begin in the summer of 2005.
  - In July 2004, OPG was given approval to return an additional 515-megawatt unit at Pickering to service. In March 2005, a tentative agreement was reached with Bruce Power to restart two 750-megawatt units at the Bruce "A" nuclear facility in Kincardine. The government is in the process of completing its due diligence on this proposal.
  - In April 2005, the government requested additional proposals for the generation of up to 1,000 megawatts from renewable sources.
  - The government is working on partnering with neighbouring jurisdictions on major hydroelectric projects. In September 2004, the government announced a detailed technical study on the Clean Energy Transfer Initiative (CETI) and proposed hydroelectric projects in northern Manitoba and a transmission line that would bring power from Manitoba to Ontario. In March 2005, the government submitted a joint proposal with Hydro-Quebec and SNC-Lavalin to support Newfoundland and Labrador in the development of two major hydroelectric generation projects on the Lower Churchill River in Labrador.

As well as providing for an increase in energy supply, the government has made conservation a top priority, setting a conservation target of five per cent for Ontario by 2007 and committing to reduce its own electricity use by at least 10 per cent by 2007. To achieve this goal, the Conservation Bureau will co-ordinate and foster conservation initiatives, including demand-side management programs.

To support conservation, smart meters will be installed in every home by 2010, giving electricity consumers the ability to reduce and shift their demand in response to electricity prices.

Investing in Roads and Municipal Infrastructure

Key Highway Investment Examples

Roughly 70 per cent of freight shipped in Ontario—trucks travelling six million kilometres each and every day—use roadways within the Greater Golden Horseshoe. Increasing traffic volumes throughout the region are slowing down goods movement, resulting in lost productivity. As a result, investments to ensure the highway network is in a good state of repair and has adequate capacity are critical. This Budget includes a significant increase in highway rehabilitation investments over the next five years to improve highway conditions.

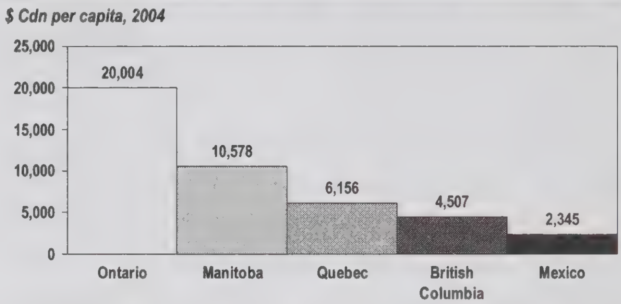
Projects in southern Ontario will focus on improvements to Highway 401 and the QEW throughout the Greater Golden Horseshoe and on other trade corridors, such as Highway 417 in Ottawa. The government has also begun to plan options for new corridors throughout the province, including a Niagara-GTA corridor, Highway 407 East Completion and extensions to Highways 404 and 427. Easing border congestion is also a key element in promoting strong economic growth across the

province. The Ontario Chamber of Commerce estimates that border congestion costs the Ontario economy over $5 billion annually.

Border traffic has grown considerably in the last decade due to the shift to just-in-time inventory systems and to the signing of free trade agreements with the United States and Mexico.

On a per-capita basis, the value of trade by truck between Ontario and the United States is notably greater than that of Mexico or any other province with the United States.

Trade-by-Truck Across the U.S. Border with Selected Provinces and Mexico



Note: Imports from the U.S. to Canadian provinces are measured at the province in which Canada Customs cleared the shipment, which may not be the province of final destination for the shipment. Per-capita value for Mexico based on 2003 population data.
Sources: U.S. Bureau of Transportation Statistics, Statistics Canada, The World Bank Group; calculations by Ontario Ministry of Finance.

On April 21, 2005, the Province and the federal government committed a total of $129 million to move forward with a number of initiatives in response to the recommendations contained in the recent Schwartz Report on the Windsor Gateway. On April 20, 2005, the Province also announced that it will fund the municipal environmental assessment for the proposed Huron Church truck bypass, a key recommendation of the Schwartz Report. If the environmental assessment study is approved, the Province will also provide up to $150 million for the construction of the truck bypass.

These projects will complement efforts already underway by the Canadian and U.S. governments to reduce crossing times across the Windsor-Detroit border by 25 per cent over the next year, by providing additional resources for processing commercial traffic.

Supporting Investments in Municipal Infrastructure

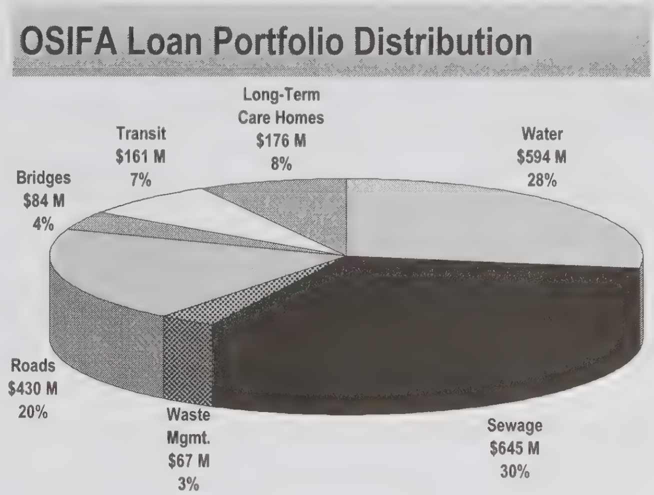
Key investments in municipal infrastructure are needed to support economic development and address health and safety concerns. For example, transit investments are necessary to improve mobility in urban centres and relieve pressure on strategic corridors for the movement of goods. Improved transit services attract new riders, reduce the amount of time people must spend commuting and help reduce emissions that are harmful to the environment.

A number of initiatives are underway to help municipalities finance these projects. Investments under the Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) as well as the Ontario Strategic Infrastructure Financing Authority (OSIFA) loan program are helping communities renew and improve infrastructure such as local roads and bridges, and water and wastewater facilities.

OSIFA is an innovative financing vehicle that provides Ontario's municipalities and other broader public-sector partners with access to low-cost and longer-term loans to renew and build critical public infrastructure. OSIFA funds its low-cost and longer-term loans through the sale of Infrastructure Renewal Bonds.

OSIFA currently provides infrastructure renewal loans to Ontario's municipalities. To date, OSIFA has committed to provide 166 municipalities with $2.1 billion in low-cost and longer-term loans for more than 1,000 local infrastructure projects in eight critical areas:

- clean water infrastructure;
- sewage infrastructure;
- municipal roads;
- municipal bridges;
- waste management infrastructure;
- public transit;
- municipal long-term care homes; and
- renewal of municipal social housing.



OSIFA's infrastructure renewal loans are making a real difference in communities across Ontario, from Red Lake in northwestern Ontario, to St. Thomas in southern Ontario, to Kingston in eastern Ontario. The majority of municipalities (146 out of 166 municipalities) borrowing from OSIFA are smaller communities with populations under 100,000. Smaller communities, especially smaller rural and northern communities, achieve significant savings by borrowing through OSIFA. Collectively, the municipalities participating in OSIFA's loan program are saving millions of dollars in interest charges and transaction fees over the life of their loans—savings that benefit local taxpayers.

New Directions for OSIFA

Beginning in 2005-06, the OSIFA loan program is being broadened so that Ontario's municipalities will be able to use OSIFA's low-cost and longer-term infrastructure renewal loans to support investments in local culture, tourism and recreation infrastructure projects that promote economic development and improve quality of life for residents. OSIFA's infrastructure renewal loans provide municipalities with the financial flexibility they need to build vibrant and prosperous communities.

Later this year, universities will be able to apply for the same low-cost and longer-term loans that municipalities have been using to make critical investments in their communities. OSIFA's infrastructure renewal loans will provide universities the financial flexibility needed to remain world-class educators and innovators by investing in facilities that support student education and academic research.

Energy conservation projects will be a key OSIFA priority for both the municipal and university sectors.

Ontarians will be able to invest in infrastructure projects in their communities by purchasing retail Infrastructure Renewal Bonds (IRBs). Retail IRBs will provide Ontarians with a solid investment for their future and the future of their communities. OSIFA will use the proceeds raised from the sale of IRBs to provide low-cost and longer-term infrastructure renewal loans to Ontario's municipalities and universities.

Section V: Unlocking the Potential of Ontario's Cities and Regions

All cities and regions contribute to Ontario's wealth generation potential and quality of life. Between 1994 and 2004, all regions in Ontario experienced positive growth rates for both employment and GDP, but economic growth is not automatic, and different cities and regions are on different paths.

Helping all areas of Ontario to contribute and share in growing prosperity is a key Provincial priority. With investments in skills and infrastructure, the government can help cities and regions to develop a competitive social and business environment that attracts investment and jobs. The federal and municipal levels of government must also make investments and implement programs to complement Ontario's efforts.

URBAN GROWTH AND THE GREATER GOLDEN HORSESHOE

The population of the Greater Golden Horseshoe[2] is expected to grow from 8.2 million in 2004 to 11.5 million by 2031. In 2004, this region is estimated to have contributed approximately 70 per cent of Ontario's GDP and 29 per cent of Canada's GDP,[3] and represents the heart of Ontario's export-oriented economy. The region's proximity to U.S. markets is a major advantage.

The Greater Golden Horseshoe provides employers with access to a highly skilled and richly diversified labour force. The area is also Canada's most popular destination for new Canadians. While the influx of people into the Greater Golden Horseshoe has strengthened its economic potential by expanding the labour force and increasing demand for goods and services, the rapid growth in population has also placed pressure on infrastructure and on health, education and municipal services.

The government has responded by setting the stage for a more co-ordinated approach, through supporting infrastructure investments and enhanced redevelopment tools. This includes the following initiatives:

- developing a comprehensive growth plan that will help guide development and infrastructure investment decisions in the Greater Golden Horseshoe over the next three decades;
- partnering with the City of Toronto and the federal government in a $1 billion, five-year Toronto Transit Commission (TTC) transit investment plan;

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2 The Greater Golden Horseshoe includes Brant; Dufferin; Durham; Haldimand; Halton; City of Hamilton; Kawartha Lakes; Niagara; Northumberland; Peel; Peterborough; Simcoe; City of Toronto; Waterloo; Wellington; and York.

3 Estimates from Centre for Spatial Economics and Statistics Canada.

- funding transit throughout the Greater Golden Horseshoe through the sharing of gas tax revenues and $514 million in transit grants and subsidies;
- strengthening transit links in the region through the proposed establishment of a Greater Toronto Transportation Authority (GTTA);
- working with the federal government to secure a comprehensive immigration agreement;
- building on existing tools for brownfield redevelopment to discourage sprawl and encourage infill development; and
- examining options for the development of potential legislation to implement Tax Increment Financing (TIF), a financial tool to promote urban regeneration.

A discussion of the Greater Golden Horseshoe would be incomplete without recognizing the unique role of the City of Toronto. The City's share of the Greater Golden Horseshoe population and its significant contribution to Ontario and Canadian GDP highlight the importance of Toronto to Ontario's economic prosperity.

In addition to its size and strategic location, Toronto has been identified as the most advanced of Canada's international cities. As Canada's leading city, Toronto is in competition with other nations' leading cities such as London, Frankfurt, New York, Los Angeles and Hong Kong.[4]

The Ontario Government is engaged in consultations with the City of Toronto regarding governance and fiscal tools.

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[4] A 2002 study by the Globalization and World Cities Research Group and Network, which ranked major cities against the benchmark of London.

Strengthening Ontario Through an Empowered Toronto

Toronto contributes roughly 46 per cent of Ontario's GDP, and 19 per cent of Canada's GDP.[5] The strength of Toronto is demonstrated by the diversity in the range of local economic activities, including research and financial services, as well as cultural and entertainment sectors. The City manages Canada's largest transit system and provides a broad range of services to one of the most diverse populations on earth.

Ontario recognizes the City of Toronto as a mature level of government that must become self-reliant and financially sustainable in order to prosper in the global economy. As a result, the Province is working closely with Toronto officials to complete the *City of Toronto Act* review, which will result in proposed legislation to modernize the City's governance and fiscal framework. In return for the proposed expanded powers, the Province would ensure that Toronto meets the rigorous accountability requirements that taxpayers demand.

Canada, Ontario and City of Toronto officials are working to establish a tri-lateral framework agreement. This agreement will outline how the three levels of government will collaborate on urban development issues. The City has identified the Regent Park Revitalization project as its first priority under the proposed agreement. This will lead to the renewal of a 50-year-old public housing project to physically reconnect and reintegrate this community with the surrounding neighbourhoods. Bringing new vitality and business to the east downtown area, the new Regent Park will become a model of economic, social, environmental and cultural sustainability.

Throughout 2005-06, the Province will also continue to work with Toronto on shared challenges such as transit investment and the renewal of public infrastructure to ensure that the City retains its prominence as an attractive place to live, work and invest.

Alongside the economic power provided by the Greater Golden Horseshoe and Toronto, it is also important to recognize the economic growth and diversity that all Ontario cities contribute to the Ontario and Canadian economies.

Strong Cities and Urban Networks

With a critical mass of people, infrastructure and industrial diversification, cities are valuable hubs for innovation and key assets for their regional economic networks. Cities are able to sustain deep pools of entrepreneurs, investors, researchers and firms providing critical business services. These pools are essential for turning raw ideas into new products and services to be commercialized and sold in the global marketplace.

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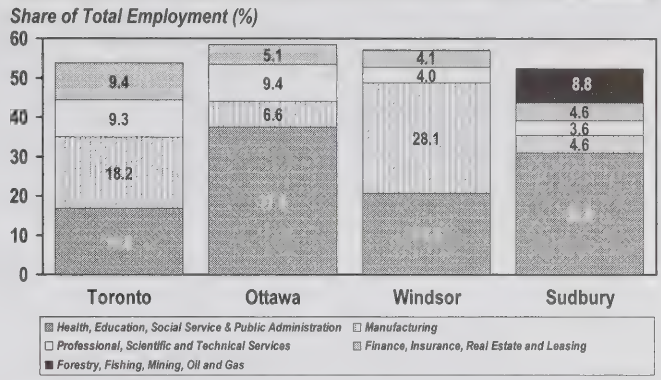
[5] Conference Board of Canada, for the Toronto Census Metropolitan Area.

Having said this, Ontario's cities are not all the same. They vary considerably in their industrial makeup, size, infrastructure and market relationships—including their linkages to surrounding rural areas.

Ontario's cities and municipalities play important roles as locations for business. Appropriate Provincial support is necessary to ensure that they can continue to provide world-class settings for employment, investment and quality of life.

Major Employment Sectors, 2004 Selected CMAs



Source: Statistics Canada

Strong, Sustainable Municipalities

Many of the services that help make Ontario businesses competitive—such as water, waste collection, transit and roads—are delivered at the local level. The Province recognizes the important role that all municipalities play in delivering these services, and believes that ensuring well-funded, efficient municipal services contributes to the economy by creating greater certainty for investors and maintaining a high quality of life for residents.

In an effort to create greater transparency within the municipal sector, the government has re-examined the municipal-provincial fiscal relationship and has introduced the Ontario Municipal Partnership Fund (OMPF), a new funding formula that is fairer and easier to understand than the previous Community Reinvestment Fund (CRF) grant.

Ontario Municipal Partnership Fund

The Ontario Municipal Partnership Fund (OMPF) was introduced in 2005 to replace the Community Reinvestment Fund (CRF) as the Province's main transfer program for funding municipalities. The OMPF is a fairer, more transparent program providing similar municipalities with similar funding. Through a clear and understandable system of grants, the new model:

- assists municipalities with their social program costs;
- includes equalization measures;
- addresses challenges faced by northern and rural communities; and
- responds to policing costs in rural communities.

Eligible municipalities will receive $656 million through the OMPF in calendar 2005. This represents an increase of $38 million, or 6.1 per cent, over CRF funding received in 2004.

The government is also undertaking a range of initiatives to support the municipal sector, which include the following:

- effective October 2004, providing municipalities with one cent per litre of Provincial gas tax revenues. The share of Provincial gas tax revenues will increase to one and a half cents per litre in October 2005 and two cents per litre in October 2006. By the end of 2007-08, over $858 million of Provincial gas tax revenues will be invested in 83 transit systems, serving 110 municipalities;
- working with Ontario municipalities to ensure they receive their fair share of the federal gas tax funding;
- increasing the Provincial share of public health costs from 50 per cent in 2004 to 75 per cent by 2007;
- implementing a new comprehensive affordable housing strategy with the Government of Canada to create more than 15,000 affordable housing units in Ontario's municipalities;
- ensuring that the province's drinking water remains clean and safe, the government is investing $209 million in infrastructure that treats and distributes water and that collects and treats wastewater. This is in addition to investments to be made through COMRIF. An additional $7 million, for a total of $49 million over five years, is being invested to help municipalities and others map watersheds, analyse water quality and quantity in watersheds, and identify potential threats;
- bringing greater accountability and transparency to land-use planning by passing the *Strong Communities (Planning Amendment) Act*, which puts planning decisions back in the hands of municipalities; and
- strengthening the provincial-municipal relationship by signing an agreement with the Association of Municipalities of Ontario (AMO) that gives municipalities a say in federal-provincial negotiations that directly affect municipalities.

Strengthening Rural Economies

There are significant economic benefits that Ontario's rural communities can derive from improved economic linkages with their neighbouring cities and urban centres. Ontario is strengthening these urban-rural networks, by encouraging neighbouring municipalities to pursue shared interests and complementary benefits that lever local diversity and promote growth and prosperity in all cities and regions.

As Ontario's rural plan *Strong Rural Communities* notes, "The success Ontario enjoys as the economic engine of the country owes much to the strengths of our rich agriculture, forestry, mining and manufacturing sectors. In fact, many auto parts manufacturers and their suppliers are located in rural Ontario." Reflecting these strengths, rural communities have performed relatively well over the past two decades, especially when compared to the rest of rural Canada.

To encourage future growth in Ontario's rural communities, the government is focused on strengthening the economic linkages between Ontario's rural and urban centres by investing in the infrastructure that links communities across the province, and the education and skills that will attract

investment and jobs. In keeping with these objectives, the government has launched a comprehensive plan for rural Ontario that provides a policy framework to guide future investment.

Rural Investments

Ontario is contributing $298 million to the Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF), a partnership with the federal government and municipalities that addresses local priorities in rural Ontario. Over five years, this initiative is expected to stimulate up to $900 million in infrastructure investments. Other rural investments include:

- $28 million in 2005-06 for Rural Economic Development (RED) projects;
- $31 million, announced in September 2004, to strengthen programs, services and staffing in rural schools; and
- $14 million in telemedicine technology in 2004-05 to deliver health care services to more remote Ontario communities.

The Province has also provided support to grain and oilseed farmers, the cattle industry, and communities and farmers transitioning from tobacco production.

A Plan for Northern Prosperity

Building on the Northern Prosperity Plan announced in the 2004 Budget, the government remains committed to growing the northern economy and promoting the north as a region with untapped economic potential. Key elements of this plan include programs that market the north's strengths to potential investors within Ontario and internationally, and initiatives to support northerners in investing in their own communities.

These and other initiatives are helping to reinvigorate Ontario's northern communities, provide opportunities for youth in the region, and rekindle a spirit of optimism about the north's future.

Recent employment growth in northern Ontario is encouraging. The region added 5,500 jobs in the last year. Its two largest cities, Sudbury and Thunder Bay, recorded net job gains of 1,300 and 700 respectively.

In 2005-06, the government will expand the Northern Prosperity Plan to include support for geological mapping that will open up the mining potential in the Far North. A total of $15 million will be invested over three years.

Other initiatives to support northern communities include:

- Investment of approximately $297 million for northern Ontario highway rehabilitation and expansion projects. This includes moving forward with the completion of four-laning projects on Highways 11 and 69, in seven and 12 years respectively.
- A renewed annual contribution of $60 million to support the Northern Ontario Heritage Fund Corporation's (NOHFC) new mandate. The new mandate focuses on private-sector job creation, youth, community development, emerging technologies, telecommunications and energy

conservation. In addition to this significant contribution, in 2005-06, NOHFC will spend $55 million for commitments made under the previous NOHFC mandate that focused on community infrastructure initiatives.

- The Northern Ontario Grow Bonds pilot program. Issued exclusively to northerners, Grow Bonds offer an annual return of four per cent for a fixed five-year term. Proceeds from approximately $13 million worth of bonds will be used to provide loans to new and growing businesses in northern communities.
- $5 million to support the Government of Ontario (GO) North investor program, an international marketing campaign launched in 2004 to showcase the north's competitive advantages and attract large-scale investments to northern municipalities.
- Establishment of a new community-based nursing education pilot in northern Ontario.
- The new Northern Ontario School of Medicine will welcome its first class in the fall of 2005 on two main campuses in Thunder Bay and Sudbury. The school will have additional teaching and research sites across northern Ontario contributing to improving the health of people living in small and large communities across this region.
- The government announced consultations on Provincial Land Tax (PLT) reform in the 2004 Budget. The government is currently reviewing feedback from the consultations and will be reporting shortly.

Conclusion

This Budget outlines the government's strategy to foster a strong, innovative economy and supports the objectives outlined in the fall 2004 Premier's Progress Report *Getting Results for Ontario: A Progress Report*. The investments and initiatives outlined in this Budget will help to bring real, positive improvement to Ontario's standard of living and enhance the productivity of Ontario's economy in years to come.

Underpinned by a firm commitment to fiscal discipline, the government's plan for a new generation of economic growth will:

- launch the McGuinty Government Plan for Postsecondary Education;
- maintain a competitive tax environment;
- modernize regulation;
- invest in key sectors;
- spur innovation;
- invest to renew and enhance Ontario's physical infrastructure; and
- unlock the economic potential of Ontario's cities and regions.

This strategy will make significant progress towards unlocking Ontario's full potential. However, results could be achieved even faster with active support from Ontario's municipal governments, as well as federal government investments in Ontario commensurate with Ontario's important role in Canada's future prosperity.

With all stakeholders working together, Ontario can become *the* place to live, work and invest.

PAPER B: APPENDIX

Ontario's Economic Outlook

Introduction and Overview

This appendix sets out the macroeconomic projections underlying the 2005 Budget fiscal plan.

Growth is expected to remain moderate in 2005, with real gross domestic product (GDP) increasing by 2.0 per cent, reflecting the appreciation of the Canadian dollar, high oil prices and an easing in the pace of economic growth in the U.S. economy. These factors are expected to restrain employment gains to 1.0 per cent, or 65,000 jobs, in 2005. Growth will be slower than in 2004, when Ontario real GDP rose by 2.6 per cent, rebounding from a series of shocks that slowed growth to 1.6 per cent in 2003.

Over the longer term, the prospects for Ontario's economic growth are brighter and real output is forecast to rise by 2.8 per cent in 2006, 3.4 per cent in 2007 and 3.3 per cent in 2008. This stronger showing will help raise the pace of job creation, lowering the unemployment rate and bringing about stronger income growth for Ontarians. Based on the outlook for growth in the economy, Ontario total taxation revenues are forecast to increase 4.1 per cent in 2005-06 and by an average of 4.9 per cent over the following three years.

Ontario Economic Highlights
(Annual Average, Per Cent)

	2003	2004	2005p	2006p	2007p	2008p
Real GDP Growth	1.6	2.6	2.0	2.8	3.4	3.3
Nominal GDP Growth	3.1	4.7	3.9	4.6	5.3	5.3
Unemployment Rate	7.0	6.8	6.7	6.5	6.3	6.1
CPI Inflation	2.7	1.9	2.1	1.9	1.8	1.8

p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

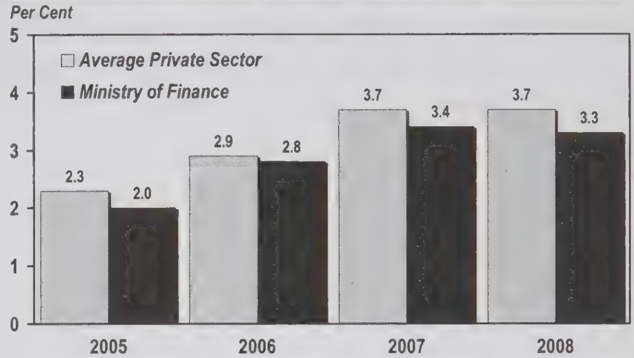
Private-Sector Economic Forecasts

The Ontario Government draws on private-sector economic forecasts as a guide for building prudent economic projections on which to establish revenue forecasts. Typically, the assumptions about economic growth in budgets have been below the average prediction of private-sector forecasts. The chart to the right compares the average private-sector forecast for Ontario real growth over the next four years with the assumptions used in the Budget.

The following table shows the projections for Ontario real economic growth of private-sector forecasters.

Ontario Real GDP Growth Projections

Ministry of Finance Compared to the Average Private-Sector Forecast



Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (May 2005).

Current Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)

	2005	2006	2007	2008
Conference Board (April)	2.1	2.9	3.4	3.4
Global Insight (January)	2.8	2.7	3.9	3.8
Centre for Spatial Economics (April)	2.4	3.3	3.6	3.6
University of Toronto (April)	1.4	3.1	4.0	3.8
Bank of Montreal (April)	2.7	3.6	–	–
RBC Financial (March)	2.4	3.0	–	–
Scotiabank (March)	1.9	2.0	–	–
TD Bank (March)	2.2	3.2	–	–
Nesbitt Burns (April)	2.4	2.8	–	–
CIBC World Markets (March)	2.2	2.8	–	–
Average	**2.3**	**2.9**	**3.7**	**3.7**

Source: Ontario Ministry of Finance Survey of Forecasts (May 2005).

The *Fiscal Transparency and Accountability Act* provides for a mechanism that will refine and increase the openness of the economic assumptions used in budget-making. The Act directs the Minister of Finance to establish an Economic Forecast Council to "provide advice relating to macroeconomic forecasts and assumptions to be used to prepare the Budget and the related fiscal plan." Meeting with private-sector economists early in the budget-preparation process helped to inform the Budget's economic and fiscal projections. It also provided a forum for professional advice about policy priorities and the economic challenges that Ontario faces.

The Economic Environment

Ontario is part of an interconnected global economy. In 2004, international exports of goods and services were equivalent to 44.5 per cent of total nominal GDP. This means the health and growth of the Ontario economy depend to a large degree on developments beyond its borders, and especially on the state of the U.S. economy. Each sustained percentage point increase in U.S. real growth adds 0.3 to 0.7 percentage points to real growth in Ontario in the first year. The range largely reflects the fact that the impact on Ontario growth depends on the specific source of the change of U.S. growth.

Although the private-sector economists who met with the Minister of Finance agreed that the most probable outcome for the Ontario economy was one of continued growth, they stressed the need to be aware of and take into consideration the risks that could arise from potentially adverse developments in the world economy.

Ontario's international trade, for example, depends on the path of Canada's exchange rate. Estimates based on historical relationships suggest that a five-cent rise in the Canadian dollar against its U.S. counterpart reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This wide range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports, because of the higher Canadian dollar, to prices for goods and services in Canada.

The prices of key commodities upon which Ontario producers rely, such as crude oil, are determined in world markets. Conflicts in other parts of the world can materially affect these prices. A sustained $10 US per barrel increase in the price of world crude oil trims Ontario's real growth by 0.3 to 0.7 percentage points in the first year. This impact also assumes natural gas prices rise in the same proportion as oil prices, since they are substitute sources of energy. The range is due in part to uncertainty regarding the degree to which higher energy costs increase consumer prices. Furthermore, the contractionary impact of higher world oil prices on U.S. demand hurts Ontario exports.

Interest rates also influence the Ontario economy. Interest rates paid by Ontario borrowers are tied to rates that markets set for Government of Canada bonds, which are highly liquid. Canadian debt trades in integrated world markets and will be influenced by global financial conditions as well as by how investors perceive the risks and opportunities in particular countries.

The following table shows the average private-sector forecast of some of these key external variables.

Key External Factors That Affect the Ontario Economy

Average Private-Sector Forecast

	Actual		Forecast	
	2003	**2004**	**2005**	**2006**
Canadian Dollar (Cents US)	71.4	76.8	82.0	82.4
Crude Oil ($ US per Barrel)	31.1	41.4	49.1	44.5
U.S. Real GDP Growth (Per Cent)	3.0	4.4	3.4	3.3
Short-Term Interest Rates (Per Cent)	2.9	2.2	2.6	3.3

Sources: Bank of Canada, U.S. Bureau of Economic Analysis, Consensus Economics (April 2005), *Blue Chip Economic Indicators* (May 2005) and Ontario Ministry of Finance Survey of Forecasts (May 2005).

To the extent that the actual path of these external factors differs from the assumptions, economic growth will tend to be faster or slower. The table below shows the typical range of these impacts.

Impact of Changes in Key Assumptions on Ontario Real GDP Growth*
(Percentage Point Change)

	First Year	Second Year
Canadian Interest Rates Increase by One Percentage Point	-0.1 to -0.5	-0.2 to -0.6
U.S. Real GDP Growth Increases by One Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Dollar Appreciates by Five Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by $10 US Per Barrel	-0.3 to -0.7	-0.1 to -0.5

*Impacts based on changes being sustained.
Source: Ontario Ministry of Finance.

The revenue forecast in the 2005 Budget is based on the economic projections set out in this appendix. The following table shows the sensitivity of Ontario revenues to changes in projected economic growth. These are average estimates. Actual results could vary significantly depending on how the underlying economic components differ from the original forecast.

Cumulative Impact of Changes in Economic Assumptions on Ontario Revenues
($ Millions)

	Full Year		
	2005-06	**2006-07**	**2007-08**
Sustained One Percentage Point Higher Real GDP Growth	615	1,290	2,030

Source: Ontario Ministry of Finance.

A sustained one percentage point decrease in real GDP growth would result in revenue declines in line with the increases estimated above.

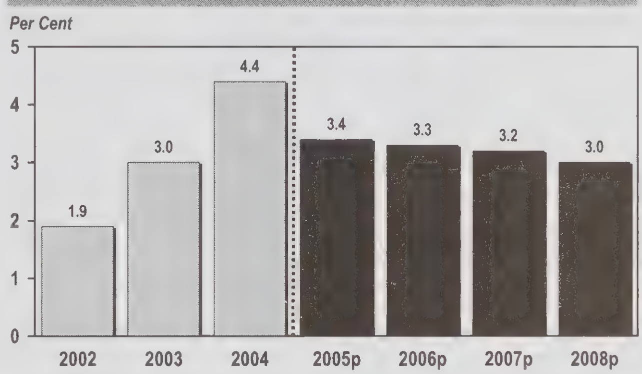
A Growing U.S. Market

The U.S. economy grew by 4.4 per cent in real terms in 2004, the fastest annual gain since 1999. Economic growth was broadly based, with both the household and business sectors contributing to the rise, providing healthy markets for Ontario exports. Consumer spending was led by strong gains in furniture and household items, boosted by a robust housing market that recorded its strongest gain since 1992. Auto sales were 17.3 million units, a high level, but just matching the average pace of sales during the previous five years. In the business sector, solid demand helped corporation profits record a third straight double-digit gain, allowing firms to maintain healthy balance sheets and strong cash flow. As a result, firms boosted investment in machinery and equipment, with outlays rising 13.6 per cent in 2004.

Economists expect continued growth in the U.S. economy, although at a moderating pace. According to the *Blue Chip Economic Indicators* survey, the U.S. economy is expected to grow by 3.4 per cent in 2005, 3.3 per cent in 2006, 3.2 per cent in 2007 and 3.0 per cent in 2008.

Continued growth may be tested by a number of risks and imbalances. The strength of consumer spending has been the main driving force of the U.S. economy since 2001. However, high personal debt levels, rising interest rates and high oil prices are beginning to temper gains in personal consumption. In 2004, real personal spending rose at a slower rate than overall GDP for the first time since 1997.

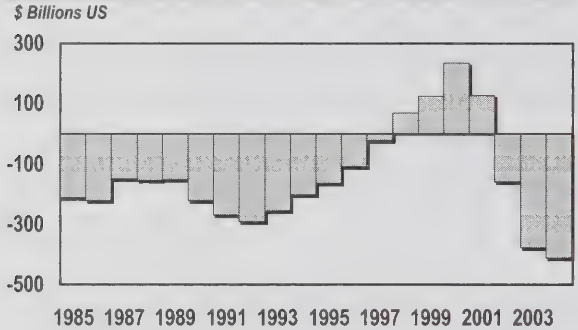
U.S. Real GDP Growth



p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (May 2005).

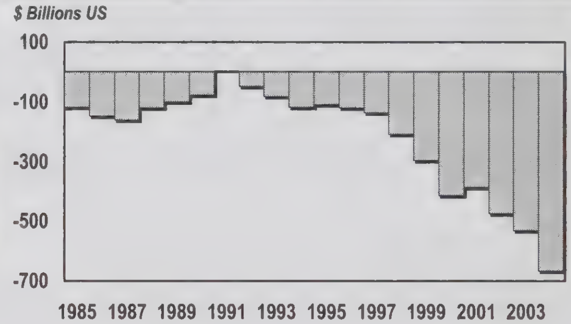
There are also growing concerns about the massive U.S. current account deficit, which reached a record $665.9 billion US in 2004, representing 5.7 per cent of GDP. The current account deficit was accompanied by a record $412 billion US federal fiscal deficit. Tax cuts and significant government spending growth have stimulated the very strong pace of consumer spending, boosting imports and raising the trade deficit. To maintain this rate of consumption, the U.S. economy must borrow from the rest of the world. If investor demand for U.S. assets were to weaken, interest rates could rise sharply, leading to a deterioration of consumer and business demand. Export-oriented Ontario, with close links to the U.S. economy, would be harmed by such a development.

U.S. Fiscal Balance



Source: U.S. Office of Management and Budget.

U.S. Current Account Balance



Source: U.S. Department of Commerce.

Adjusting to a Stronger Canadian Dollar

The Canadian dollar appreciated from 64.9 cents US in January 2003 to a peak of over 85 cents US in November 2004, a 12-year high. Since then, the dollar has eased and traded at close to 80 cents US at the end of April 2005. Over the same period, the trade-weighted value of the U.S. dollar declined by nearly 11 per cent.

The rapid appreciation of the Canadian dollar over the past two years is unprecedented and has created a significant challenge for Ontario exporters. In a survey by the Bank of Canada released in January 2005, over half of the responding firms reported being hurt by the higher dollar, with businesses in the manufacturing and resource sectors being hardest hit. The appreciation has lowered profit margins for exporters, and in some cases has reduced export volumes.

In response to the higher dollar, businesses are cutting costs and working to raise productivity. Investment in productivity-enhancing machinery and equipment is made easier by the strong currency, because it lowers the price Ontario companies pay. About 60 per cent of Ontario machinery and equipment is imported, mainly from the United States. Firms have also contained production costs by expanding their use of inputs imported from low-cost producers.

The appreciation of the Canadian dollar has benefited Ontario consumers by lowering prices of imported goods and helping to offset some of the impact of higher prices for oil.

At present, there is a wide divergence among projections of the exchange rate. Private-sector forecasts for the average value of the Canadian dollar in 2005 range from a low of 79.3 cents US to a high of 85.0 cents US. This translates into a range of 78.3 to 88.9 cents US by the end of the year, a far wider range than usually found.

Private-Sector Forecasts for the Canadian Dollar
(Cents US)

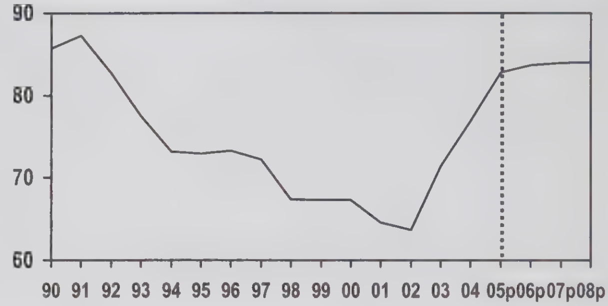
	2003	2004	2005p	2006p	2007p	2008p
Average	71.4	76.8	82.0	82.4	82.1	83.0
High	–	–	85.0	93.4	86.4	85.9
Low	–	–	79.3	76.2	79.6	81.2

p= private-sector survey average.
Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (May 2005).

The planning projections in the Budget assume the Canadian dollar will average 82.8 cents US in 2005, and gradually appreciate to an average of 84 cents US by 2008. Canadian inflation is expected to remain somewhat below U.S. inflation over this period, so the real exchange rate is expected to remain fairly stable.

Canadian Dollar

Cents US, Annual Average



p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

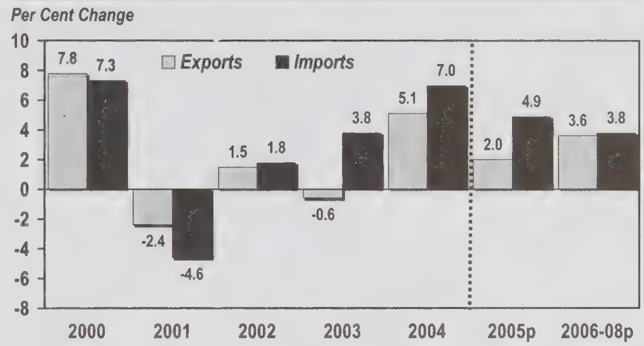
Exports Under Pressure

Ontario's international exports were valued at $230.5 billion in 2004, equivalent to 44.5 per cent of current-dollar GDP. The United States accounted for over 90 per cent of Ontario's international merchandise exports in 2004. Despite the rapid appreciation of the Canadian dollar, Ontario real exports grew 5.1 per cent in 2004, after dropping in two of the previous three years. The pickup in export growth in 2004 reflected the strongest global economic growth in nearly three decades. This, combined with a high level of U.S. auto sales and a double-digit gain in machinery and equipment investment expenditures by U.S. businesses, helped boost Ontario's export volumes. The gain, however, was concentrated in the first half of 2004 and exports declined in the second half of the year.

Real exports are expected to grow by 2.0 per cent in 2005, followed by an annual average gain of 3.6 per cent a year during the 2006 to 2008 period.

The pace of export growth reflects continued, though moderating, growth in the world economy and the adjustment of exporters to the higher value of the Canadian dollar.

Ontario Real International and Interprovincial Trade



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Private-sector forecasters expect U.S. auto sales to decline slightly in 2005 to a still-impressive 17.0 million units, down from 17.3 million in 2004. However, some models produced at Ontario auto-assembly plants are losing market share in the United States and may struggle to match sales levels achieved in 2004. The auto sector is crucial for the Ontario economy and accounted for 45.3 per cent of the province's merchandise exports to the United States in 2004.

Machinery and equipment sales accounted for 14.5 per cent of the province's merchandise exports to the United States in 2004. Forecasters expect U.S. real investment on equipment and software to increase by 12.4 per cent in 2005, the second straight double-digit annual gain. However, growth in the non-computer segment, which is more relevant for Ontario exporters, is expected to be a more moderate 7.0 per cent in 2005 and to decline by an average of 0.4 per cent a year from 2006 through 2008.

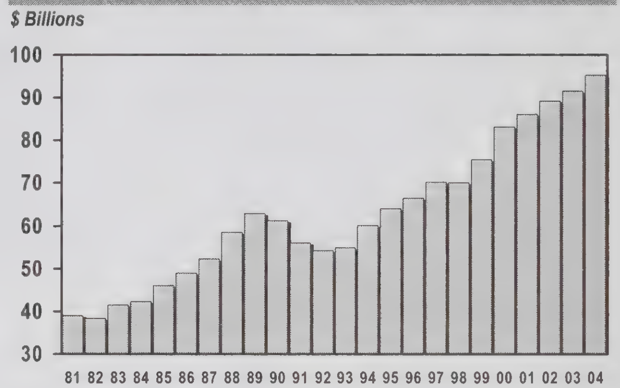
In recent years, China has surged ahead as a major exporting nation and become Ontario's second-largest two-way trading partner. Ontario merchandise imports from China grew more than fourfold from 1995 to 2004, with the share of total imports rising from 2.0 to 5.7 per cent.

Canada's other provinces and territories are also important trading partners for Ontario. Interprovincial exports totalled $95.2 billion in 2004, while imports from other provinces reached $70.5 billion. Private-sector forecasters expect Canadian real GDP growth of 2.6 per cent in 2005, stronger than their projection for the Ontario economy. On balance, other parts of Canada benefit more than Ontario from high commodity prices because primary industries such as forestry, mining and agriculture make up a larger share of their economies. Healthy economies in the rest of Canada, in turn, support growth in the market for Ontario goods and services.

China's Share of Ontario Merchandise Imports

Source: Statistics Canada.

Ontario Exports to Other Provinces



Source: Statistics Canada.

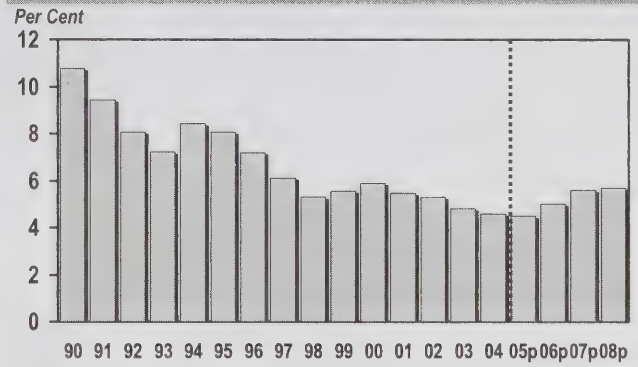
Stable Interest Rates and Low Inflation

The Bank of Canada has held interest rates steady since October 2004, when the past appreciation of the Canadian dollar began to constrain growth and reduce any prospects of inflation. This is expected to continue until later in the second half of this year, when economic growth is projected to accelerate.

Private-sector forecasters expect Canadian three-month treasury bill rates to rise slightly, from an average of 2.2 per cent in 2004 to 2.6 per cent in 2005 and 3.3 per cent in 2006. Ten-year Government of Canada bond yields are projected to increase by a smaller amount, rising from an average of 4.5 per cent in 2005 to 5.0 per cent in 2006, consistent with ongoing economic growth and contained inflation.

Since June 2004, the U.S. Federal Reserve Board has raised interest rates eight times for a total of 200 basis points, bringing its key target for the federal funds rate to 3.0 per cent. As a result, Canadian short-term interest rates are below comparable U.S. rates for the first time in close to four years. The Federal Reserve is widely expected to continue lifting interest rates gradually, implying a widening negative Canada-U.S. rate gap for the rest of the year.

10-Year Government of Canada Bond Rate



p = private-sector survey average.
Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (May 2005).

Canadian Interest Rate Outlook (Annual Per Cent)

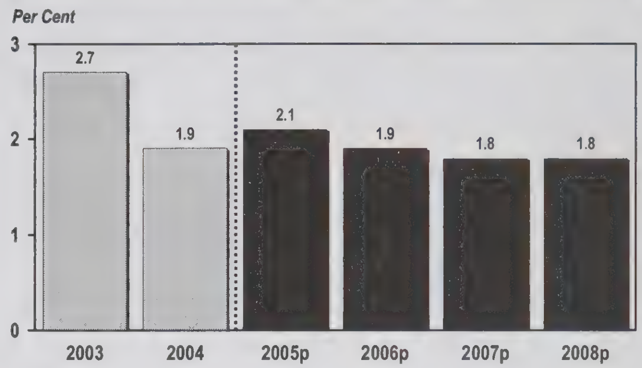
	2003	2004	2005p	2006p	2007p	2008p
3-month Treasury Bill Rate	2.9	2.2	2.6	3.4	4.3	4.7
10-year Government Bond Rate	4.8	4.6	4.6	5.2	5.7	6.0
Ontario CPI Inflation Rate	2.7	1.9	2.1	1.9	1.8	1.8

p= projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

The Bank of Canada aims at core inflation of two per cent, the midpoint of its one to three per cent target range. The Bank's favoured measure of core inflation (the CPI excluding the eight most volatile items and the effect of changes in indirect taxes) has remained below two per cent throughout 2004 and into early 2005. This gives the Bank scope to keep interest rates low and support economic growth.

The Ontario CPI inflation rate is expected to average 2.1 per cent in 2005, similar to the 1.9 per cent rate recorded in the previous year. Over the 2006 to 2008 period, inflation is projected to average slightly less than two per cent a year.

Ontario CPI Inflation Outlook

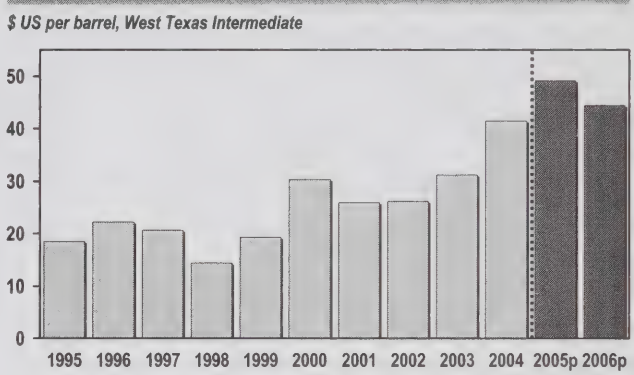


p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The limited movement of Ontario inflation within the Bank of Canada's target range likely will be shaped by two main factors: oil prices and the exchange rate.

In early April 2005, the price of crude oil reached an all-time high of over $58 US per barrel, a reflection of tight supply conditions and continued strong demand. Private-sector forecasters expect the average price to be 18.6 per cent higher in 2005 than in 2004. Forecasters generally expect slower global economic growth to trigger lower crude oil prices as 2005 unfolds, with crude projected to ease to $48.80 US per barrel by July 2005 and $44.70 US in a year's time. However, futures markets are less optimistic, expecting crude oil to trade above $50 US per barrel throughout 2005. For the purposes of this budget, oil prices are assumed to average $51.40 US per barrel in 2005. High oil and gas prices are the primary reason for the modest growth forecast in Ontario Gasoline Tax revenues (1.1 per cent) in 2005-06.

Crude Oil Prices



p = private-sector survey average.
Source: Consensus Economics (April 2005).

The Canadian dollar's appreciation of about 25 per cent since 2003 has lowered the cost of imported goods for consumers and businesses. About half of the durable goods consumed by Ontarians are imported.

Wage settlements averaged 3.0 per cent during 2004, similar to the experience of the past few years. Wage settlements are expected to moderate in 2005, helping to keep inflationary pressures in check.

Risks From Financial Markets

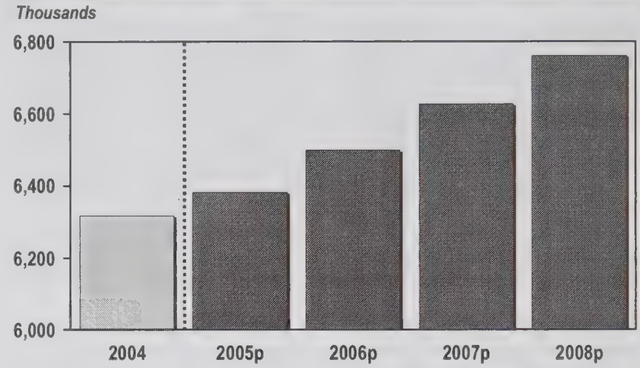
The assumption of financial market stability, sustained low inflation and stable interest rates is subject to significant and varied risks. One important area of concern is the potential for sharply higher inflation in the United States. Markets have become accustomed to moderate, well-contained inflation and this has helped maintain low nominal interest rates. U.S. demand continues to grow at a healthy pace and may be pushing the limits of productive capacity at the same time as the depreciating U.S. dollar is putting upward pressure on import prices. Despite these pressures, inflation has remained moderate. Should the balance of forces resulting in low inflation be disrupted by rising commodity prices, abrupt U.S. dollar depreciation or slower productivity growth, there is a danger of interest rates rising faster and higher than expected. Under such circumstances, the Bank of Canada could be under pressure to raise domestic interest rates. Higher rates could hinder Canada's economic growth, even as U.S. economic growth falters.

Risks such as these, arising from external forces, make it important to establish Ontario's fiscal plan on a prudent basis.

Continued Job Growth

Ontario total employment rose 1.7 per cent in 2004, representing a net increase of 108,000 jobs. Full-time jobs, which rose by 111,500 new positions, accounted for all of the net gain in employment last year. On an industry basis, the service sector, including wholesale and retail trade, health care, and finance, insurance and real estate, led employment gains in 2004.

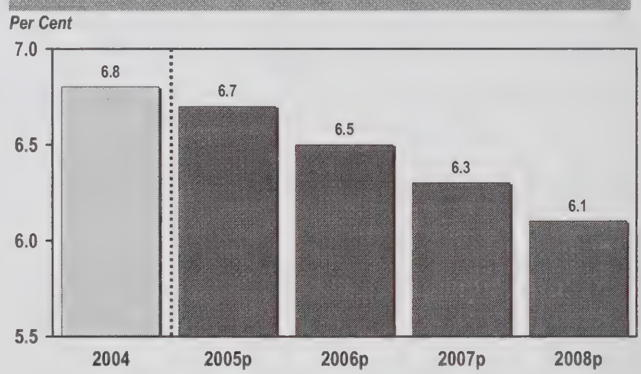
Ontario Employment



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

As Ontario businesses adjust to the steep appreciation of the Canadian dollar and cost pressures from high oil prices, employment growth is forecast to slow to 1.0 per cent in 2005, a gain of 65,000 jobs. Employment gains are expected to firm up during the 2006 to 2008 period, averaging close to 2.0 per cent a year. Stable gains in employment are projected to steadily lower Ontario's unemployment rate to 6.1 per cent by 2008. Over the same period, the rate of labour-force participation is expected to climb modestly to 68.5 per cent.

Ontario Unemployment Rate



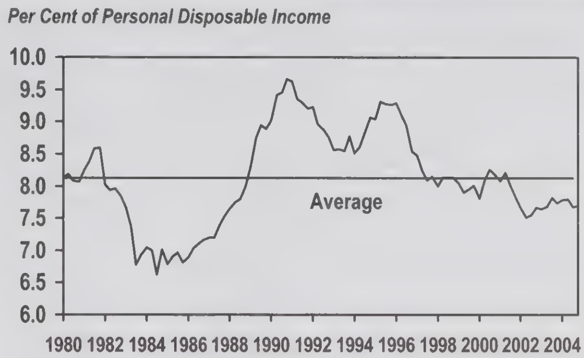
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Steady gains in employment will create rising incomes for Ontario workers. Wages and salaries are forecast to rise by 3.6 per cent in 2005 and an average of 5.3 per cent during 2006 to 2008. Personal income is expected to increase 3.8 per cent in 2005 and by an average of 4.9 per cent over the following three years, providing the basis for growing household spending on goods and services. Based on the outlook for rising employment, wages and incomes, Ontario's Personal Income Tax revenues are forecast to increase 4.9 per cent in 2005-06 and by an average of 6.7 per cent over the following three years. Likewise, Employer Health Tax revenues are forecast to increase 3.8 per cent in 2005-06 and by an average of 4.4 per cent over the following three years.

Household Sector to Post Modest Gains

Consumer spending is expected to continue growing over the forecast period, reflecting healthy household balance sheets, continuing low interest rates and rising incomes. Real consumer spending is projected to rise 2.6 per cent in 2005, easing from the 3.2 per cent rate posted in 2004. Over the 2006 to 2008 period, household spending growth is projected to average 3.1 per cent a year. Rising house values have boosted household wealth, contributing to the willingness and capacity of households to increase spending. Based on the outlook for increased personal spending, Ontario Retail Sales Tax revenues are forecast to increase 3.8 per cent in 2005-06 and by an average of 5.5 per cent over the following three years.

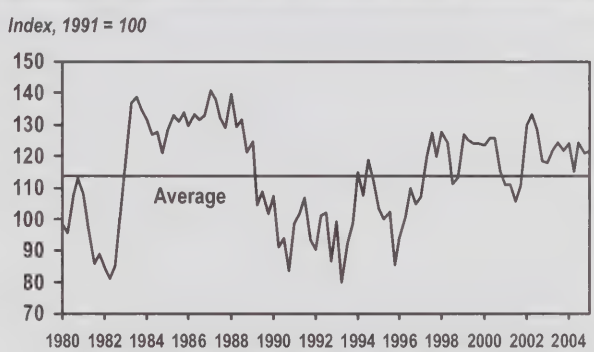
Canadian Household Debt Interest Costs



Sources: Department of Finance Canada and Statistics Canada.

The strong pace of Ontario housing market activity contributed to vigorous personal spending on household-related items in 2004. Home resales hit a record high last year, climbing 7.0 per cent. Sales of new homes also remained strong. Home furnishing stores registered sales growth of 19.0 per cent. Home centre and hardware store sales rose 7.9 per cent in 2004, the fourth consecutive annual increase.

Ontario Consumer Confidence



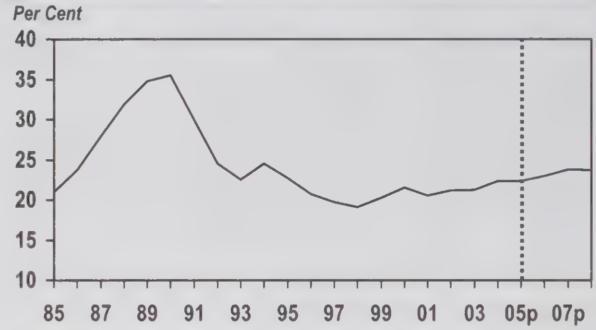
Source: Conference Board of Canada.

Although household debt levels have continued to rise, partly a result of robust home buying in recent years, the cost of carrying debt is low by historical standards. Low interest rates and steadily rising personal disposable incomes have contributed to the healthy position of household finances. The ratio of Canadian household debt costs to personal disposable income was 7.7 per cent in the fourth quarter of 2004, below the average of 8.1 per cent over the 1980 to 2004 period. The ratio has remained relatively stable over the past three years, ranging between 7.5 and 7.8 per cent. The level of consumer confidence in 2004, as measured by the Conference Board of Canada, was the third highest in the past 16 years. The consumer confidence index is currently 7.5 percentage points above the average prevailing since 1980.

The housing market is expected to be fairly stable in 2005. During the past nine years, Ontario housing starts have trended higher. In 2003 and 2004, housing starts averaged just over 85,000 units annually, the strongest two-year pace of building activity since 1988 and 1989. Unlike the housing boom of the late 1980s, the current market is not characterized by speculative and unsustainable increases in home prices.

Over the 2005 to 2008 period, starts are projected to moderate. Housing starts are forecast to reach 75,400 units in 2005 and an average of 74,800 units per year over the 2006 to 2008 period. The continued strength of the housing market reflects historically low mortgage rates and rising disposable incomes, which help keep home ownership affordable. This, combined with continued strong levels of immigration, will encourage high levels of housing demand and construction.

Mortgage Payments as a Share of After-Tax Household Income



p = projection.
Sources: Bank of Canada, Canada Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

Average five-year mortgage rates have remained steady near six per cent since mid-December, down from a peak of 6.7 per cent in July 2004. Borrowers can usually negotiate mortgage rates lower than those published by financial institutions.

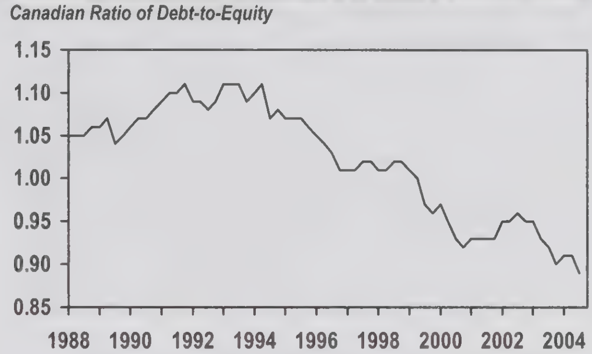
Sales of existing homes rose 7.0 per cent to reach a record level of 197,354 in 2004, marking the fourth consecutive year of record home resales in Ontario. The average price of a resale home in Ontario climbed 8.1 per cent to $245,229 in 2004, the highest on record. Resale home prices have increased steadily since 1995 and have risen faster than the rate of CPI inflation over the past eight years. However, the housing market appears to be in the midst of a period of sustainable, non-speculative growth, unlike the experience of the late 1980s. From 1982 through 1989, average resale home prices jumped by nearly 160 per cent, more than three times the 49.3 per cent gain recorded during the most recent seven years.

Nonetheless, modestly higher interest rates in the second half of this year are expected to lead to a gradual easing of housing activity, keeping the market from overheating, yet without causing an abrupt deterioration in home affordability. The average private-sector forecast calls for the number of existing home sales to ease by 1.9 per cent in 2005 and 4.1 per cent in 2006, with average resale house prices rising by 4.4 per cent in 2005 and 3.8 per cent in 2006. Based on the housing market outlook, Ontario Land Transfer Tax revenues are forecast to remain at their 2004-05 level in 2005-06.

Strong Business Investment

Business investment spending on machinery and equipment has contributed to Ontario economic growth during the past two years, with outlays rising by 7.2 per cent in 2003 and 7.4 per cent in 2004, the largest gain since 1999. Commercial and industrial construction, on the other hand, declined in both 2003 and 2004. The strong pace of machinery investment has been the outcome of a supportive investment environment, including rising demand in the global economy, a high level of profits, improving corporate balance sheets, a high rate of capacity utilization, lower capital equipment prices and competitive pressures to adopt new technology.

Business Balance Sheets Are Strong



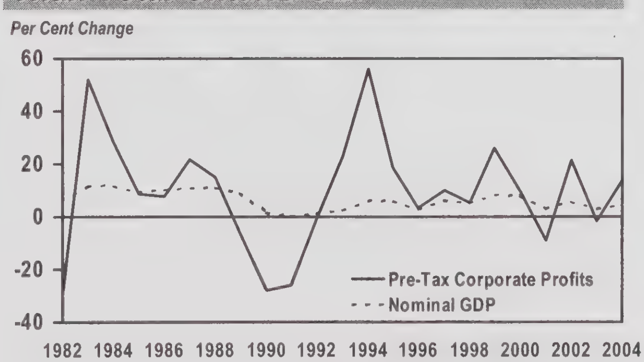
Source: Statistics Canada.

Currently, Canadian manufacturing industries are operating at a record-high 88.5 per cent capacity utilization rate, with the industrial sector operating at 86.0 per cent, the highest rate in 16 years.

Strong growth in corporation profits was an important source of funds for business investment spending in 2004. Pre-tax corporation profits increased by 13.8 per cent last year, with both financial and non-financial firms recording gains. Corporate profits were equivalent to 12.9 per cent of GDP in 2004, the highest in 30 years. While relatively low interest rates and strong growth in the United States will support profits this year, the high dollar will act to dampen growth. Corporation profits are expected to grow by 3.0 per cent in 2005 and an average of 4.2 per cent from 2006 through 2008.

Profits are much more volatile than the economy as a whole. Since 1990, the annual change in profits has ranged from a decline of 28 per cent to a rise of 56 per cent. That range is 10 times more than the corresponding variability of nominal GDP growth. Profits are likely to be just as volatile in the future as in the past. The moderate, steady projection of profit growth, at a rate somewhat below that for nominal GDP, is intended to serve as a prudent planning assumption rather than a forecast that future profits will be stable. Given the volatility of corporate profit

Profits Subject to Far More Variation Than Total Ontario GDP



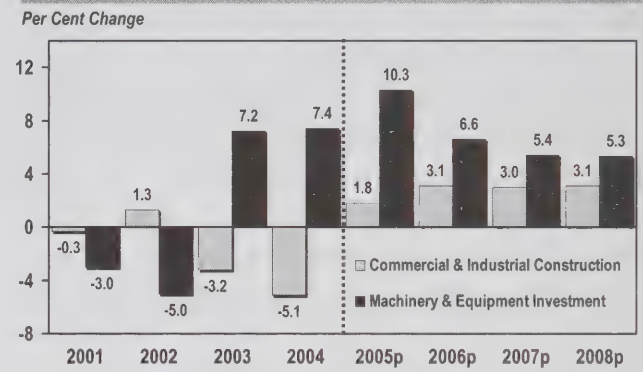
Sources: Statistics Canada and Ontario Ministry of Finance.

growth and the exceptionally high level of revenues attained in 2004-05, Ontario Corporation Tax revenues are cautiously forecast to decline 2.8 per cent in 2005-06 and increase by an average of 1.8 per cent over the following three years.

According to Statistics Canada's investment intentions survey published in February, Ontario businesses intend to increase nominal investment spending in 2005 by 8.6 per cent for equipment and 1.9 per cent for structures.

Real investment in machinery and equipment is forecast to rise by 10.3 per cent in 2005 and 5.8 per cent a year during the 2006 to 2008 period. Since Ontario firms import about 60 per cent of their capital equipment, mainly from the United States, the higher Canadian dollar has substantially lowered the cost of investing in machinery and equipment. This is encouraging business investment in productive capital and enhancing Ontario's long-term competitiveness.

Real Business Investment



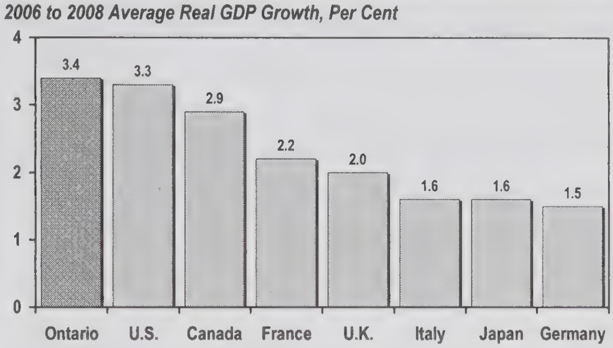
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

After declining in four of the past five years, non-residential investment outlays are expected to increase by 1.8 per cent in 2005, and then continue to rise by an average of 3.1 per cent from 2006 through 2008.

Positive Long-Term Economic Prospects

Private-sector forecasters are optimistic about the future growth prospects of Ontario. The consensus forecast calls for real GDP growth to average 3.4 per cent a year during the 2006 through 2008 period, ahead of all G-7 countries.

Ontario and G-7 Economic Growth



Sources: Consensus Forecasts (April 2005) and Ontario Ministry of Finance Survey of Forecasts (May 2005).

The measures announced in this Budget will help enhance prosperity and strengthen the long-term potential for growth. Investing in the knowledge and skills of workers, renewing our infrastructure, promoting innovation and supporting an environment that encourages business investment and job creation form the policy framework that will achieve Ontario's economic potential.

Annex A: Details of the Ontario Economic Outlook

The Ontario Economy, 2003 to 2008
(Per Cent Change)

	Actual		Projected			
	2003	2004	2005	2006	2007	2008
Real Gross Domestic Product	**1.6**	**2.6**	**2.0**	**2.8**	**3.4**	**3.3**
Personal consumption	3.2	3.2	2.6	2.9	3.2	3.1
Residential construction	4.5	4.2	0.8	1.3	2.4	2.5
Non-residential construction	-3.2	-5.1	1.8	3.1	3.0	3.1
Machinery and equipment	7.2	7.4	10.3	6.6	5.4	5.3
Exports	-0.6	5.1	2.0	3.4	3.7	3.9
Imports	3.8	7.0	4.9	3.8	3.7	4.0
Nominal Gross Domestic Product	**3.1**	**4.7**	**3.9**	**4.6**	**5.3**	**5.3**
Other Economic Indicators						
Retail sales	3.4	3.2	4.0	3.9	4.0	4.4
Housing starts (000s)	85.2	85.1	75.4	74.3	74.5	75.5
Personal income	2.6	3.6	3.8	4.6	4.9	5.1
Wages and salaries*	3.1	3.7	3.6	5.0	5.4	5.4
Corporate profits	-1.7	13.8	3.0	4.0	4.0	4.5
Consumer Price Index	2.7	1.9	2.1	1.9	1.8	1.8
Labour Market						
Employment	2.9	1.7	1.0	1.8	2.0	2.0
Job creation (000s)	173	108	65	118	130	131
Unemployment rate (per cent)	7.0	6.8	6.7	6.5	6.3	6.1

*Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Annex B: Comparison to the 2004 Budget

Ontario's actual growth in 2004 slightly exceeded last year's Budget projection of 2.3 per cent, and the composition was somewhat different than expected. Retail sales grew by only 3.2 per cent last year compared to the 2004 Budget projection of 3.5 per cent. Housing starts were 85,114 units in 2004, ahead of the Budget assumption of 77,600. Both corporation profits and personal income were higher than anticipated in the May 2004 Budget.

The outlook for Ontario growth in 2005 and 2006, however, has deteriorated since the Budget of May 2004. As seen in the table below, Ontario real GDP is expected to grow by 2.0 per cent in 2005 and 2.8 per cent in 2006, down from last year's Budget assumption of 3.2 and 3.3 per cent, respectively. The growth of nominal GDP, corporation profits and retail sales is also lower than projected in last year's Budget.

The weakening in the province's near-term economic prospects mainly reflects the impacts of the sharp appreciation of the Canadian dollar and high oil prices. As the impact of these two forces fades, growth is expected to improve to 3.4 per cent in 2007 and 3.3 per cent in 2008.

Changes in Key Economic Forecast Assumptions, 2004 Budget Compared to 2005 Budget (Per Cent Change)

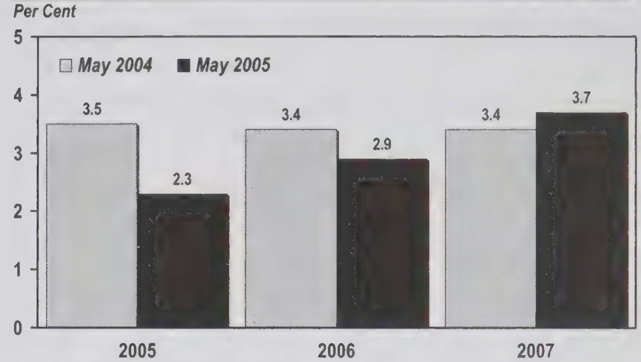
	2004		2005		2006		2007	
	Budget 2004	Actual	Budget of 2004	Budget of 2005	Budget of 2004	Budget of 2005	Budget of 2004	Budget of 2005
Real GDP	2.3	2.6	3.2	2.0	3.3	2.8	3.4	3.4
Nominal GDP	4.1	4.7	5.0	3.9	5.2	4.6	5.3	5.3
Corporate Profits	5.8	13.8	4.9	3.0	5.0	4.0	5.9	4.0
Retail Sales	3.5	3.2	4.1	4.0	4.1	3.9	4.3	4.0
Housing Starts (000s)	77.6	85.1	76.0	75.4	75.0	74.3	74.0	74.5
Employment	1.7	1.7	1.8	1.0	2.0	1.8	2.1	2.0
Job Creation (000s)	104	108	114	65	132	118	140	130
Personal Income	3.4	3.6	4.5	3.8	4.8	4.6	4.9	4.9

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Private-sector forecasts for Ontario economic growth in 2005 and 2006 have also been reduced from the projections made at the time of the 2004 Budget. Forecasters now anticipate a stronger rebound will be underway in 2007.

Average Private-Sector Forecast of Ontario Real GDP Growth

May 2004 Compared to May 2005



Source: Ontario Ministry of Finance Survey of Forecasts.

PAPER C

Details of Revenue Measures

Paper C: Details of Revenue Measures

This paper provides further information on the revenue measures proposed in the Budget. For precise information, the reader is advised to consult the amending legislation.

INCOME TAX ACT

Ontario Property and Sales Tax Credits for Seniors

Last year, the government announced the first enrichment of the Ontario Property and Sales Tax Credits for Seniors since the inception of the program in 1992. Lower-income seniors who own or rent their homes are now eligible for additional assistance as a result of an increase to the underlying "basic" property tax credit amount of $125 and an equivalent increase to the maximum benefit available for these credits.

For the first time, as a result of increased amounts for the federal Old Age Security and Guaranteed Income Supplement programs, the minimum level of income guaranteed by the government, including Ontario's Guaranteed Annual Income System (GAINS), for qualifying Ontario senior couples is rising above $22,000 for 2005. This is the income threshold above which Ontario Property and Sales Tax Credits for Seniors are reduced.

The government proposes to increase the income threshold for senior couples in 2005 to ensure that those couples receiving the guaranteed minimum level of income support retain their full Ontario Property and Sales Tax Credits benefit. The income threshold for single seniors will remain unchanged because their guaranteed minimum level of income support remains below the $22,000 threshold in 2005.

Concordance with the Income Tax Act (Canada)

The government proposes to parallel, with any necessary modifications, a number of tax measures as they apply to non-refundable tax credits announced in the 2005 federal budget and other federal releases, subject to the passage of federal legislation:

- enhancements relating to amounts that can be claimed for dependants through the Medical Expense Tax Credit, effective for the 2005 taxation year; and
- a non-refundable tax credit for eligible adoption expenses, effective for the 2005 taxation year.

Other proposals announced by the federal government would be automatically adopted once federal legislative and regulatory changes have been approved. These include:

- changes allowing specific charitable donations, made before January 12, 2005 in relation to the Asian tsunami disaster, to be claimed by Ontario taxpayers either in 2004 or 2005; and

- various enhancements to the Disability Tax Credit and Medical Expense Tax Credit, effective for the 2005 taxation year.

Corporations Tax Act

Ontario Film and Television Tax Credit and Ontario Production Services Tax Credit

The Ontario Film and Television Tax Credit (OFTTC) is a refundable tax credit for Ontario labour expenditures incurred by Ontario-based, Canadian-controlled production companies producing eligible film and television productions in Ontario.

As announced on December 21, 2004, the government proposes that the OFTTC rate be increased from 20 to 30 per cent for labour expenditures incurred after December 31, 2004 and before January 1, 2010. In addition, the 10 per cent regional bonus would continue to be available for filming outside the Greater Toronto Area. First-time producers would be eligible for an enhanced rate of 40 per cent on the first $240,000 of qualifying labour expenditures incurred after December 31, 2004 and before January 1, 2010.

The Ontario Production Services Tax Credit (OPSTC) is a refundable tax credit for Ontario labour expenditures incurred by foreign-based and domestic film and television productions that are not claimed for purposes of the OFTTC.

As announced on December 21, 2004, the government proposes that the OPSTC rate be increased from 11 to 18 per cent for labour expenditures incurred after December 31, 2004 and before April 1, 2006. The three per cent regional bonus for filming outside the Greater Toronto Area would be eliminated for labour expenditures incurred after December 31, 2004.

Legislative amendments will be introduced to create regulatory authority to prescribe OFTTC and OPSTC rates.

Ontario Computer Animation and Special Effects Tax Credit

The Ontario Computer Animation and Special Effects (OCASE) Tax Credit is a 20 per cent refundable tax credit available to corporations for Ontario labour expenditures incurred in respect of digital animation and digital visual effects carried out in Ontario for use in film and television productions.

At present, the OCASE tax credit is based on the lesser of Ontario labour expenditures and 48 per cent of the cost of the production net of certain government assistance.

The government proposes to enhance the OCASE tax credit. Effective for eligible expenditures after May 11, 2005, the OCASE tax credit would be based only on Ontario labour expenditures net of certain government assistance reasonably related to those expenditures.

Ontario Interactive Digital Media Tax Credit

The Ontario Interactive Digital Media Tax Credit (OIDMTC) is a 20 per cent refundable tax credit available to eligible corporations for qualifying expenditures incurred to create and market original interactive digital media products in Ontario.

This Budget proposes to improve accessibility to the OIDMTC. Effective for eligible products completed after May 11, 2005, the requirement that eligible corporations demonstrate a minimum 90 per cent copyright ownership in the eligible product would be relaxed, provided that the product is not developed under a fee-for-service arrangement.

Ontario Sound Recording Tax Credit

The Ontario Sound Recording Tax Credit (OSRTC) is a 20 per cent refundable tax credit available to eligible Ontario sound recording companies for qualifying expenditures in respect of an eligible Canadian sound recording by an emerging Canadian artist or group.

This Budget proposes that the OSRTC be enhanced by the following measures for taxation years ending after May 11, 2005:

- the minimum period required by the corporation to carry on a sound recording business would be reduced from 24 to 12 months; and
- for master tapes completed after May 11, 2005:
  - the minimum total playing time would be reduced from 40 to 15 minutes; and
  - the requirement that a sound recording company market its copies of eligible sound recordings through an established national distributor would be replaced with a requirement that a sound recording company have a distribution plan approved by the Minister of Culture.

Ontario Book Publishing Tax Credit

The Ontario Book Publishing Tax Credit (OBPTC) is a 30 per cent refundable tax credit available to eligible Ontario book publishing companies for qualifying expenditures on literary works by new Canadian authors.

This Budget proposes to enhance the OBPTC for children's books. Currently, an author is eligible for the first three children's books published. The proposed enhancement would allow a children's book author to be an eligible author for the first three works published in each category of children's writing:

- fiction;
- non-fiction;

- poetry; and
- biography.

This change would be effective for literary works published after May 11, 2005.

Capital Cost Allowance

Ontario proposes to parallel recently announced federal regulatory changes to align the capital cost allowance (CCA) rates with the useful life of assets and to encourage investment in assets used to generate efficient and renewable energy, subject to federal implementation.

Assets acquired before January 1, 2008 that are used to generate electricity from clean, alternative or renewable sources will continue to be eligible for Ontario's 100 per cent CCA rate.

Tax Avoidance

The government is in the course of reviewing arrangements that are designed to avoid corporate income taxes paid to Ontario.

For example, arrangements can be designed to take advantage of differences in provincial corporate income tax rates. In the international context, there are comprehensive federal income tax measures that address arrangements driven by differences in national income tax rates. However, limited measures exist at the provincial level.

Differences in provincial income tax rates create an incentive for Canadian corporations in a related group to situate intangible property (such as indebtedness and intellectual property) in provinces with lower tax rates, and for these corporations to carry out internal transactions (e.g., transfers of goods and services within the group) on terms that reduce the overall level of provincial tax in the corporate group. In certain cases, arrangements can have the effect of "exporting" tax losses from a low-tax province to a higher-tax province.

These and other types of arrangements can also reduce income taxes paid in other provinces. The Ontario Government will be discussing this issue with the other provinces and the federal government, with the objective of developing common rules to address aggressive interprovincial tax-planning arrangements.

Treatment of Corporations Incorporated Outside Canada

A corporation's liability for Ontario tax is based in part on whether the corporation is incorporated inside or outside Canada. The federal government and the other provinces apply a residency test instead of basing liability for tax on the jurisdiction of incorporation.

To stop the avoidance of provincial tax that can result from this difference, it is proposed that Ontario corporate tax liability now be determined with reference to whether the corporation is resident (rather than incorporated) inside or outside Canada. This change to the Ontario corporate tax rules would be consistent with the federal corporate income tax rules and the rules in the other provinces.

This measure would be effective for taxation years ending after May 11, 2005.

RETAIL SALES TAX ACT

Retail Sales Tax Exemption for Destination Marketing Fees

It is proposed that the temporary retail sales tax exemption for destination marketing fees be extended. Destination marketing fees billed on or before June 30, 2006 would qualify for exemption from the five per cent retail sales tax on accommodations.

Eligibility rules would remain unchanged.

This measure continues support for an industry-sponsored tourism initiative.

Updating the Retail Sales Tax Exemptions for Publications Purchased by Charitable Organizations and Educational Institutions

It is proposed that the retail sales tax exemption for publications produced or purchased by religious, charitable or benevolent organizations be updated to include CD-ROMs and DVDs used to promote the objects of the organization.

It is also proposed that the exemption for publications purchased by schools, school boards, community colleges, universities and public libraries be updated to include educational DVDs.

These changes would be effective for purchases after May 11, 2005.

Retail Sales Tax Exemption for Booster Seats

The Ontario Government's Bill 73, *An Act to Enhance the Safety of Children and Youth on Ontario's Roads,* was passed into law in December 2004.

Regulations under the new law would make booster seats mandatory for children who are too big for child car seats, yet too small to be properly protected by seat-belts.

An amendment to the *Retail Sales Tax Act* will be proposed to expand the current retail sales tax exemption for child car seats to include booster seats. This amendment would be effective upon proclamation, to coincide with the implementation of the booster-seat requirement.

Initiatives to Encourage the Redevelopment of Brownfields

Crown liens have been identified by the National Round Table on the Environment and the Economy, municipalities, and others, as one of the barriers to the remediation of brownfields.

In the coming year, the Ministry of Finance will develop criteria for the removal of outstanding Provincial tax liens on brownfields properties. The Ministry will also work closely with the federal government to co-ordinate the removal of outstanding federal liens. In addition, the Ministry of Finance will undertake proposed amendments to the *Municipal Act, 2001*, to clarify program requirements for the Brownfields Financial Tax Incentive Program.

Tax Increment Financing

A number of municipalities have requested that the Province explore the feasibility of introducing Tax Increment Financing (TIF) as a new financial tool. In response, in 2005-06, the government will examine options to implement TIF as a tool to promote urban regeneration. In the summer and fall of 2005, Ministry of Finance staff will consult with interested municipalities and others on the policy framework and potential legislation for this initiative.

Technical Measures

Resource Allowance

The resource allowance is a special deduction under the *Corporations Tax Act* provided to corporations in the oil and gas and mining sectors. It is generally equal to 25 per cent of resource profits, and is provided instead of allowing deductibility of Crown royalties.

The 2004 Ontario Budget announced that the Province would maintain the Ontario resource allowance and the rules restricting the deduction of Crown royalties, although these provisions are being phased out by the federal government. The legislation implementing the Ontario announcement has been passed, and the required Ontario regulations are being finalized.

It is proposed that the Ontario provisions be amended to clarify that income computed for Ontario purposes must be used in determining Ontario resource profits. This amendment, which would be effective for taxation years beginning after May 6, 1997, would prevent corporations from obtaining a double benefit as a result of claiming both an Ontario incentive deduction and additional resource allowance on that incentive.

Streamlining of Current Remissions Process

Tax remissions under the *Ministry of Revenue Act* may be granted in special circumstances of public interest, and must be considered by cabinet, upon the recommendation of the Minister of Finance. It is proposed that an amendment be made to the *Ministry of Revenue Act* to streamline and increase the efficiency of the approval process for Ontario taxpayers. The amendment would provide the Minister of Finance with the authority to remit amounts under $10,000, where such remissions would be in the public interest. This treatment would be consistent with that offered in several other provinces.

It is also proposed that the Minister of Finance invoke a provision under the Ontario *Income Tax Act* that, if mutually agreed upon, would delegate to the Minister of National Revenue the ability to grant remissions of Ontario personal income tax in certain circumstances. This too would streamline the approval process for Ontario taxpayers.

Retail Sales Tax Simplified Calculation for Small Software Businesses

Retail sales tax applies to non-custom computer software and certain software services. When providing software services to customers, businesses must charge the applicable tax on the taxable components. Contracts may often include a blend of both taxable and non-taxable services, requiring businesses to determine the tax liability of the components of the service contract.

To simplify the tax determination and collection for small software businesses, the Ministry of Finance will be proposing a pilot project consisting of an optional method of tax calculation for contracts involving both taxable and non-taxable services. Participating businesses and purchasers could opt to use a blended tax rate applied to the total contract price. This would benefit small software businesses by simplifying the tax determination and collection process.

Use of Appraisals for Multijurisdictional Vehicle Tax

Under the *Retail Sales Tax Act*, it is proposed that multijurisdictional vehicle owners be permitted to use appraisals to establish vehicle value when transferring their vehicles from multijurisdictional use to Ontario use. This would only apply to vehicles purchased after September 30, 2001, owned by the same person for more than 60 months, and where the pro-rated multijurisdictional vehicle tax was paid in lieu of the point-of-sale retail sales tax.

PROFESSIONAL CORPORATIONS

In 2001, the right to incorporate was extended to all regulated professionals. Under existing provisions, non-members of a profession cannot own shares in a professional corporation. Recent negotiations with the Ontario Medical Association have resulted in the government's commitment to extend the share structure of physician professional corporations to include non-voting shares for family members. The government is also proposing to implement this change for dentists who operate their practices through a professional corporation.

Technical Amendments

In order to improve the administrative effectiveness and enforcement, and maintain the integrity and equity of Ontario's tax system, as well as enhance legislative clarity and regulatory flexibility to preserve policy intent, certain amendments will be proposed to the following statutes:

- *Assessment Act*
- *Business Corporations Act*
- *Community Small Business Investment Funds Act*
- *Corporations Tax Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Highway Traffic Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Ministry of Revenue Act*
- *Regulated Health Professions Act, 1991*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

Financial Administration Act

The government intends to introduce amendments to the *Financial Administration Act* that, if passed, would allow for the implementation by the government of Special Operating Agencies, revolving accounts and expanded use of recoveries. These amendments are designed to improve accountability and financial management of qualifying government programs and have been implemented successfully in other Canadian jurisdictions.

2005 Budget Impact Summary*				($ Millions)
	2005-06	2006-07	2007-08	2008-09
Income Tax Act				
Ontario Property and Sales Tax Credits for Seniors[1]	(2)	(2)	(2)	(2)
Concordance with the *Income Tax Act (Canada)*	(24)	(24)	(25)	(25)
Corporations Tax Act				
Ontario Film and Television Tax Credit	(31)	(39)	(48)	(57)
Ontario Production Services Tax Credit	(17)	0	0	0
Ontario Computer Animation and Special Effects Tax Credit	(1)	(1)	(1)	(1)
Ontario Interactive Digital Media Tax Credit	(1)	(1)	(2)	(2)
Ontario Sound Recording Tax Credit	(1)	(1)	(2)	(2)
Ontario Book Publishing Tax Credit[2]	–	–	–	–
Capital Cost Allowance	(4)	(8)	(14)	(37)
Closing Loophole: Ensuring Corporations Incorporated Outside Canada Pay Provincial Tax[3]	5	5	5	5
Retail Sales Tax Act				
Exemption for Destination Marketing Fees	(2)	(1)	0	0
Updating Exemptions for Publications Purchased by Charitable Organizations and Educational Institutions	(1)	(1)	(1)	(1)
Exemption for Booster Seats[4]	(1)	–	–	–
Technical Measures[5]	–	–	–	–
Professional Corporations	(10)	(40)	(40)	(40)
Total Revenue Changes	**(88)**	**(113)**	**(129)**	**(162)**

* Numbers may not add due to rounding.

Notes:

1 Estimate based on anticipated adjustment to the income threshold for senior couples.

2 Ongoing cost estimated to be $100,000 per year.

3 This figure does not include revenue that may be received in 2005-06 in respect of additional income allocated to Ontario as a result of the difference between Ontario rules, and federal corporate income tax rules and the rules in other provinces.

4 2006-07 and ongoing cost estimated to be $400,000 per year.

5 $0 in 2005-06. Less than $1 million in subsequent years.

PAPER D

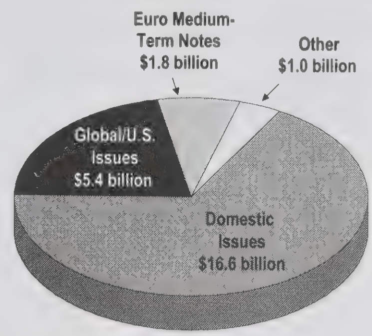
Report on Borrowing and Debt Management

Long-Term Public Borrowing

As an agency of the Ministry of Finance, the primary goal of the Ontario Financing Authority (OFA) is to manage the borrowing, debt and cash management activities of the Province and the Ontario Electricity Financial Corporation (OEFC) in a professional and cost-effective manner.

Borrowing—All Markets

C$24.8 billion issued



Source: Ontario Financing Authority (March 31, 2005).

In 2004-05, the OFA borrowed $24.8 billion on behalf of the Province and the OEFC. The $24.8 billion included $5.9 billion in pre-funding for the 2005-06 Long-Term Public Borrowing Requirement, as the OFA decided to take advantage of favourable market conditions to lock in the lowest long-term interest rates since the early 1960s. Without the pre-funding, the 2004-05 Long-Term Public Borrowing Requirement would have been $4.9 billion lower than the $23.8 billion forecast in the 2004 Budget Plan.

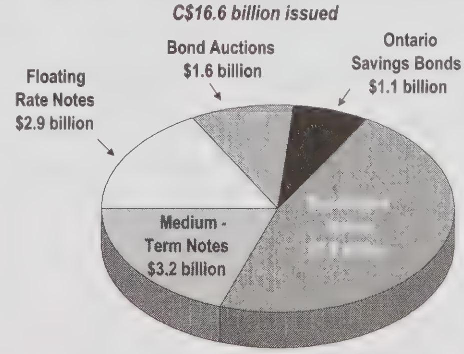
While the majority of borrowing was completed in the domestic market, Ontario further diversified its funding sources by raising the equivalent of $7.2 billion in the international capital markets, achieving costs comparable to those available in the Canadian domestic markets. Highlights include:

- Four U.S. dollar Global bonds.
- Euro Medium-Term Notes (EMTNs) in Canadian and Australian dollars, Swiss francs as well as Ontario's first sterling-denominated issue since 1998.

In 2004-05, $16.6 billion, or 67 per cent, of the Total Long-Term Public Borrowing Requirement was completed in the Canadian dollar domestic market.

Borrowing—Domestic Market

C$16.6 billion issued



Source: Ontario Financing Authority (March 31, 2005).

The Province used a variety of cost-effective financial instruments to diversify its domestic borrowing program and meet investor preferences.

2004-05 Borrowing Program: Province and OEFC

($ Billions)	Budget Plan*	Interim	In-Year Change
Deficit/(Surplus)	6.1	3.0	(3.1)
Adjustments for:			
Non-Cash Items Included in Deficit	(0.7)	(2.0)	(1.3)
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	-
Acquisitions of Major Tangible Capital Assets	1.6	1.5	(0.1)
Debt Maturities	16.1	15.3	(0.8)
Debt Redemptions	1.0	1.4	0.4
Canada Pension Plan Borrowing	(1.1)	(1.0)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	-	5.9	5.9
Decrease/(Increase) in Short-Term Borrowing	0.2	0.2	-
Other Uses/(Sources) of Cash	1.4	1.4	-
Total Long-Term Public Borrowing Requirement	**23.8**	**24.8**	**1.0**

Note: Numbers may not add due to rounding.

*Deficit and Adjustments for Non-Cash Items Included in Deficit as per 2004-05 Budget Plan excluding the one-time revenue gain related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

The Increase/(Decrease) in Cash and Cash Equivalents in 2004-05 represents $5.9 billion of pre-funding for the 2005-06 Total Long-Term Public Borrowing Requirement.

Details of the in-year improvement of $3.1 billion from the $6.1 billion deficit projected in the 2004 Budget are included in Appendix 1 to Paper A, *Details on Ontario Finances*.

The $1.3 billion decline in Adjustments for Non-Cash Items Included in Deficit is primarily attributable to the impact of the federal government transfer for Health Care Wait Times Reduction ($1.4 billion).

The $0.8 billion decline in Debt Maturities is primarily attributable to debt that had callable or extendible features that were exercised or not exercised by either the investor or the Province, resulting in the extension of the corresponding debt maturities to future years. As part of prudent budget forecasting, it was assumed that this debt would mature in fiscal 2004-05.

Medium-Term Borrowing Program Outlook: Province and OEFC				
($ Billions)	2005-06	2006-07	2007-08	2008-09
Deficit/(Surplus)	2.8	2.4	1.5	-
Adjustments for:				
Non-Cash Items Included in Deficit	2.3	1.2	1.7	1.4
Amortization of Major Tangible Capital Assets	(0.8)	(0.9)	(1.0)	(1.0)
Acquisitions of Major Tangible Capital Assets	1.8	2.2	2.4	2.2
Debt Maturities				
Currently Outstanding	20.5	14.5	12.6	19.1
Incremental Impact of Future Refinancing	-	-	1.9	2.5
Subtotal	20.5	14.5	14.4	21.7
Debt Redemptions	0.7	0.7	0.7	0.7
Canada Pension Plan Borrowing	(1.2)	(0.4)	(0.4)	(0.6)
Decrease/(Increase) in Short-Term Borrowing	-	-	-	-
Other Uses/(Sources) of Cash	1.1	0.1	0.2	0.5
Total Long-Term Public Borrowing Requirement	**27.2**	**19.9**	**19.5**	**24.8**

Note: Numbers may not add due to rounding.

2005-06 Borrowing Program Status*			
($ Billions)	Completed	Remaining	Total
Province	6.5	18.2	24.7
OEFC	-	2.5	2.5
Total	**6.5**	**20.7**	**27.2**

*As of April 30, 2005.

As of April 30, 2005, $6.5 billion, or 24 per cent, of the 2005-06 Total Long-Term Public Borrowing Requirement had been completed. This consists of $5.9 billion in pre-funding undertaken during 2004-05 and $0.6 billion of long-term debt issued in 2005-06.

The Canadian domestic market will remain the main funding source for the Province in 2005-06. Ontario will diversify its domestic borrowing program by issuing a variety of debt instruments including syndicated issues, bond auctions, floating rate notes, medium-term notes and Ontario Savings Bonds. The OFA is also reviewing the merits of issuing a Real Return Bond linked to the Canadian Consumer Price Index.

International markets will remain a significant component of Ontario's borrowing program. While the U.S. dollar market is expected to be the most important international market for the Province, Ontario will also consider opportunities to expand its presence in the euro market and increase issuance in Swiss francs, sterling and yen.

In addition, the OFA is completing documentation to permit the Province to issue debt in the Australian dollar domestic market. New currency markets may present cost-effective borrowing opportunities for Ontario. These include the Mexican peso and Turkish lira markets. Foreign exchange exposure to these currencies will be converted into Canadian dollars.

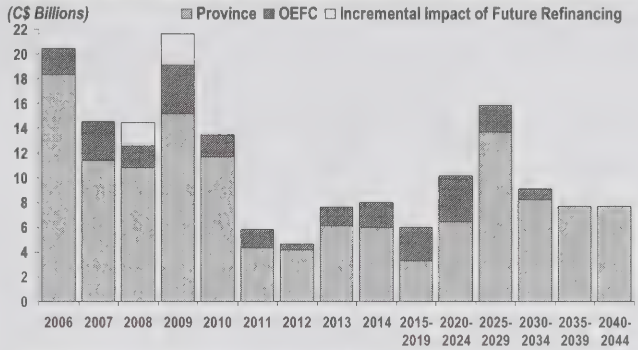
The government will seek the approval of the legislature for additional borrowing authority to meet program requirements.

Debt Maturities

The most significant component of the borrowing program is the refinancing of Debt Maturities.

The Incremental Impact of Future Refinancing represents the effect of future borrowing on the debt maturity profile, as indicated in the Medium-Term Borrowing Program Outlook.

Debt Maturities

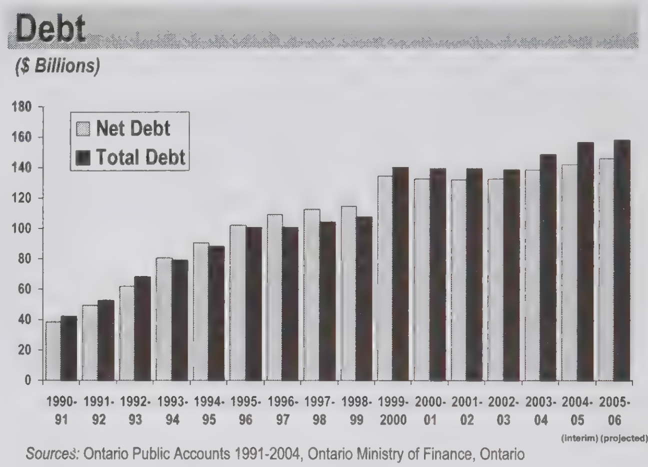


Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date.
Source: Ontario Financing Authority (March 31, 2005).

Debt

Ontario's Total Debt has increased since the early 1990s from $41.9 billion as of March 31, 1991 to an interim $156.6 billion as of March 31, 2005. The increase in Total Debt in the year ended March 31, 2000 reflects the consolidation of OEFC's $19.4 billion in stranded debt from the electricity sector to the Province's debt.

Net Debt represents the difference between the total liabilities and total financial assets of the Province. Interim Net Debt was $142.2 billion as of March 31, 2005. Net Debt is projected at $146.0 billion as of March 31, 2006.



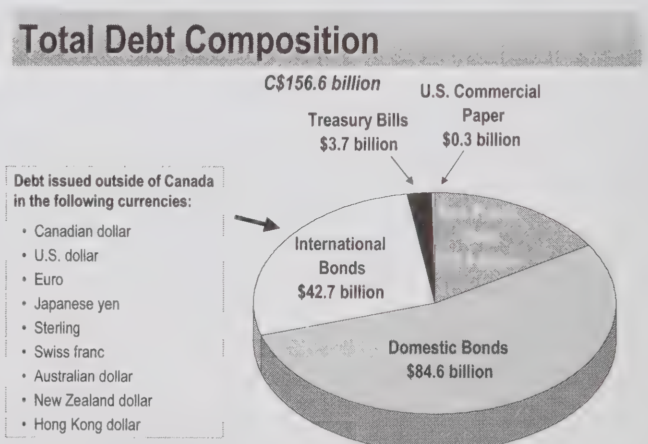
Sources: Ontario Public Accounts 1991-2004, Ontario Ministry of Finance, Ontario Financing Authority (March 31, 2005).

The Ontario Strategic Infrastructure Financing Authority's (OSIFA) interim 2004-05 debt of $1.3 billion is included in the Province's Total Debt, but not in the Province's Net Debt, as OSIFA's debt is offset by net assets of $1.3 billion. OSIFA's debt is not guaranteed by the Province. This debt is composed of Ontario Opportunity Bonds ($323 million), Infrastructure Renewal Bonds ($650 million) and short-term commercial paper ($315 million). Additional details on OSIFA are provided in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth.*

Total Debt Composition

Total Debt of $156.6 billion is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debentures held by certain federal and provincial public-sector pension plans and government agencies.

As of March 31, 2005, public debt totalled $131.3 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in nine currencies. Ontario also had $25.4 billion outstanding in non-public debt issued in Canadian dollars.



Source: Ontario Financing Authority (March 31, 2005).
Note: Numbers may not add due to rounding.

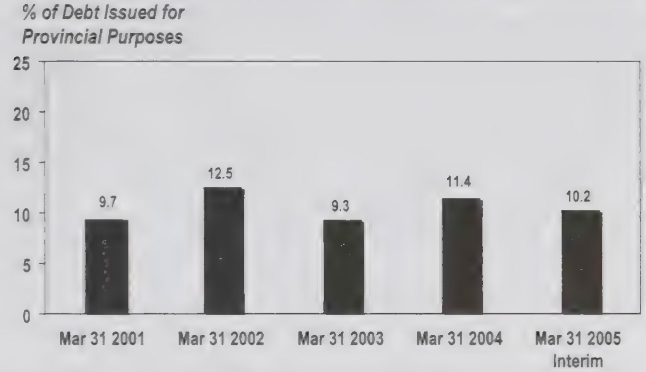
DEBT MANAGEMENT

The Province mitigates financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

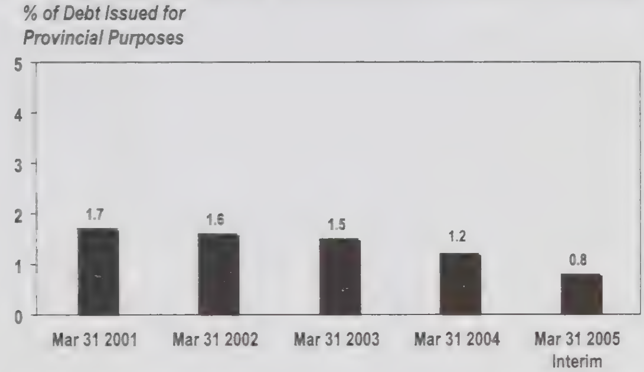
The Province's interest rate reset and foreign exchange exposures were below policy limits in 2004-05.

Interest Rate Reset Exposure



Source: Ontario Financing Authority. Excludes OEFC debt.

Foreign Exchange Exposure



Source: Ontario Financing Authority. Excludes OEFC debt.

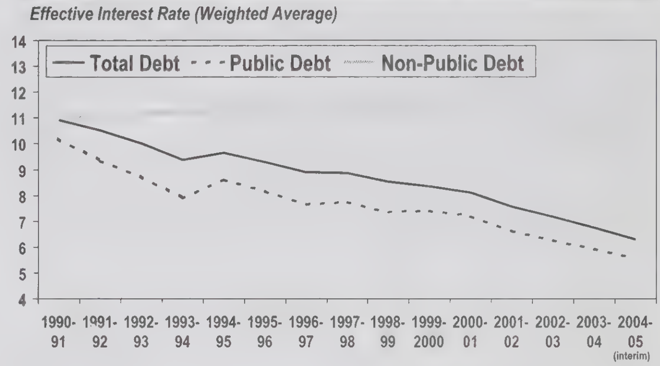
LOWER AVERAGE COST OF DEBT

The Province has been able to take advantage of a lower interest rate environment by refinancing debt at more attractive interest rates.

As of March 31, 2005, the effective interest rate on Total Debt (on a weighted-average basis) was 6.3 per cent compared to 10.9 per cent on March 31, 1991.

The effective interest rate on public debt as of March 31, 2005 was 5.6 per cent compared to 10.0 per cent on non-public debt. The weighted-average interest rate takes into account the proportion of debt at each level of interest rate in the debt portfolio.

Effective Interest Rate (Weighted Average) of Debt



Sources: Ontario Public Accounts 1991-2004 and Ontario Financing Authority (March 31, 2005).

Consolidated Financial Tables

NET DEBT AND ACCUMULATED DEFICIT — TABLE I (A)

Interim 2005 ($ Millions)

	2000-01	2001-02	2002-03	2003-04	Interim 2004-05	Plan 2005-06
Debt[1]						
Publicly Held Debt						
Debentures and Bonds[2]	99,008	99,990	102,958	116,732	125,556	127,681
Treasury Bills	4,814	5,108	6,274	3,359	3,747	3,748
U.S. Commercial Paper[2]	959	1,566	1,515	1,156	269	269
Ontario Strategic Infrastructure Financing Authority (OSIFA)[3]	-	-	-	323	1,288	1,856
Other	447	447	438	422	404	390
Deposits with the Province of Ontario Savings Office (POSO)[4]	2,482	2,438	-	-	-	-
	107,710	109,549	111,185	121,992	131,264	133,944
Non-Public Debt						
Minister of Finance of Canada:						
Canada Pension Plan Investment Fund	12,709	11,944	10,746	10,233	10,233	10,233
Ontario Teachers' Pension Fund	11,535	11,043	10,387	9,487	8,666	7,596
Public Service Pension Fund	3,446	3,331	3,200	3,052	2,886	2,706
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,637	1,582	1,520	1,450	1,371	1,285
Canada Mortgage and Housing Corporation	1,147	1,116	1,078	1,047	1,003	960
Other[5]	657	581	356	1,096	1,219	1,256
	31,131	29,597	27,287	26,365	25,378	24,036
Total Debt	**138,841**	**139,146**	**138,472**	**148,357**	**156,642**	**157,980**
Cash and Temporary Investments	(6,319)	(5,773)	(7,252)	(8,139)	(14,922)	(7,900)
Other Net (Assets)/Liabilities[6]	(26)	(1,252)	1,427	(1,348)	1,774	(2,250)
OSIFA - Net (Assets)/Liabilities[3]	-	-	-	(313)	(1,266)	(1,813)
Net Debt	**132,496**	**132,121**	**132,647**	**138,557**	**142,228**	**146,017**
Tangible Capital Assets[7]	-	-	(13,942)	(14,369)	(15,047)	(16,040)
Accumulated Deficit	**132,496**	**132,121**	**118,705**	**124,188**	**127,181**	**129,977**

Source: Ontario Ministry of Finance.

(1) Includes debt issued by the Province and Government Organizations, including Ontario Electricity Financial Corporation.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

(3) OSIFA's interim 2004-05 debt is composed of Ontario Opportunity Bonds ($323 million), Infrastructure Renewal Bonds ($650 million) and short-term commercial paper ($315 million). OSIFA's debt is not guaranteed by the Province.
OSIFA - Net (Assets)/Liabilities include cash, temporary investments, accounts receivable, loans receivable, debt issue costs and accounts payable.

(4) The Province completed the sale of POSO to Desjardins Credit Union effective March 31, 2003, with the POSO liabilities to the depositors assumed by the purchaser.

(5) Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrants Investor Corporation and indirect debt of school boards (the indirect debt of school boards was incurred in June 2003 to refinance the non-permanently financed debt of 55 school boards; an equivalent amount is included in Net Assets as advance payments to school boards).

(6) Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, pensions and the liability for power purchase agreements with non-utility generators.

(7) Starting with fiscal year 2002-03, Tangible Capital Assets are capitalized and amortized over their estimated useful lives. In 2001-02 and prior years, the costs of Tangible Capital Assets were recognized as expenditures.

DEBT MATURITY SCHEDULE
Interim 2005

TABLE I (B)
($ Millions)

Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currencies[2]	Interim 2004-05 Total	2003-04 Total
Fiscal Year Payable							
Year 1	16,335	7,016	676	46	-	24,073	20,609
Year 2	11,792	2,611	460	-	-	14,863	19,481
Year 3	6,748	5,468	320	-	244	12,780	12,158
Year 4	14,711	3,563	-	795	207	19,276	9,268
Year 5	7,905	1,717	876	1,443	882	12,823	18,981
1-5 years	57,491	20,375	2,332	2,284	1,333	83,815	80,497
6-10 years	21,874	4,263	35	1,188	483	27,843	30,978
11-15 years	4,344	-	-	-	-	4,344	1,718
16-20 years	10,156	-	-	-	-	10,156	10,231
21-25 years	14,993	-	-	-	-	14,993	14,368
26-40 years[3]	15,491	-	-	-	-	15,491	10,565
Total[4]	**124,349**	**24,638**	**2,367**	**3,472**	**1,816**	**156,642**	**148,357**
Debt Issued for Provincial Purposes	100,693	19,935	2,367	3,472	1,369	127,836	120,481
OEFC Debt	22,368	4,703	-	-	447	27,518	27,553
OSIFA Debt	1,288	-	-	-	-	1,288	323
Total[5]	**124,349**	**24,638**	**2,367**	**3,472**	**1,816**	**156,642**	**148,357**

(1) Euro includes debt issued in legacy currency, i.e., French franc.

(2) Other Currencies comprise Australian dollar, New Zealand dollar, Pound sterling, Swiss franc and Hong Kong dollar.

(3) The longest term to maturity is to March 1, 2045.

(4) Total for all foreign currency denominated debt as at March 31, 2005 was $32.3 billion (2004, $30.3 billion). Of that, $31.2 billion or 96.6% (2004, $27.5 billion or 90.8%) was fully hedged to Canadian dollars.

(5) Total debt includes issues totalling $3.0 billion (2004, $2.9 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

MEDIUM-TERM OUTLOOK
NET DEBT AND ACCUMULATED DEFICIT

TABLE I (C)
($ Billions)

	2006-07	2007-08	2008-09
Total Debt	**163.5**	**168.7**	**172.0**
Cash and Temporary Investments	(7.9)	(7.9)	(7.9)
Other Net (Assets)/Liabilities	(3.2)	(4.3)	(5.2)
OSIFA - Net (Assets)/Liabilities	(2.7)	(3.9)	(5.1)
Net Debt	**149.7**	**152.6**	**153.8**
Tangible Capital Assets	(17.4)	(18.8)	(20.0)
Accumulated Deficit	**132.4**	**133.9**	**133.9**

Note: Numbers may not add due to rounding.

DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents an interim maturity schedule of the Province's and OEFC's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties.

DERIVATIVE PORTFOLIO NOTIONAL VALUE — **TABLE I (D)**
Interim 2005 — **($ Millions)**

Maturity in Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10	6-10 Years	Over 10 Years	Interim 2004-05 Total	2003-04 Total
Swaps:									
Interest rate	13,567	7,710	10,747	11,205	7,854	15,127	3,781	69,991	55,013
Cross currency	8,903	4,625	4,469	4,635	4,482	3,833	-	30,947	30,622
Forward foreign exchange contracts ...	5,241	-	-	-	-	-	-	5,241	2,755
Futures	62	-	-	-	-	-	-	62	62
Options	-	-	-	-	-	-	-	-	90
Caps and floors	275	398	-	-	88	-	-	761	480
TOTAL	**28,048**	**12,733**	**15,216**	**15,840**	**12,424**	**18,960**	**3,781**	**107,002**	**89,022**

Glossary of Financial Instruments Described in Paper D

Bond Auction: process in which participants are invited to bid on an amount of a bond on a semi-annual yield basis.

Cap: a contract that allows the purchaser to put a ceiling on the contractual interest rate of a liability.

Domestic Bonds: debt securities issued in the domestic market, clearing through a domestic clearing system.

Euro Medium-Term Notes (EMTNs): medium-term notes issued outside the United States and Canada and structured to meet individual investor requirements.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index, and pay out at a predetermined yield spread to the index.

Floor: a contract that allows the purchaser to have a lower limit on the total rate of return of an asset.

Forward Foreign Exchange Contract: an agreement between two parties to set exchange rates in advance.

Future: an exchange-traded contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies including Canadian and U.S. dollars.

Medium-Term Notes (MTNs): debt instruments offered under a registered program and structured to meet specific investor needs.

Notional Value: represents the face value of outstanding contracts. It does not represent cash flows.

Option: a contract whereby the buyer has the right to buy/sell a designated instrument at a specified price within a specified period of time.

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Syndicated Issues: debt securities that are underwritten by a group of investment dealers.

Treasury Bills: short-term debt instruments issued by governments on a discount basis usually for durations of 91 days, 182 days, or 52 weeks.

U.S. Commercial Paper (CP): short-term debt typically issued by a government or corporation on a discount basis. CP is limited to terms of 1 to 270 days and is usually supported by a back-up bank line of credit.



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Ontario

2006 ONTARIO BUDGET

BUILDING OPPORTUNITY

The Honourable Dwight Duncan
Minister of Finance

Budget Speech

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OUR PLAN

Mr. Speaker, I am proud to present the McGuinty Liberal government's 2006–07 Budget.

Opportunity is the foundation on which our society — and our economy — is built.

Giving each Ontarian the opportunity to build success has always been the right thing to do.

opportunity to build success

Today, in the global economy of the 21st century, it is also the right economic strategy for our province.

Mr. Speaker, this Budget represents the next step in our plan to build opportunity.

And before I tell you about our plan, I want to provide some context.

When we came to office in 2003, we inherited a health care deficit, an education and skills deficit, an infrastructure deficit and a fiscal deficit.

In the last two and a half years, we have set about addressing each of these challenges in a planned and deliberate way.

As a result, family physicians are seeing more Ontarians. First-year medical-school spaces will increase by 23 per cent. More nurses will attend to our sick or infirm. Dozens more MRI and CT machines have been purchased for the public health system. Wait times are down for key procedures such as radiation treatment.

We have launched the most significant investment in higher education in a generation, delivering 75,000 new spaces, doubling student aid, and investing an additional $6.2 billion in improved quality, accessibility and accountability in our universities, colleges and training programs.

historic investment in postsecondary education

We've made great progress for our younger students. Half of our students in the critically important early grades of junior kindergarten to Grade 3 are now in classes of 20 or fewer.

Sixty-two per cent of Grade 3 and Grade 6 students are now meeting the provincial standard in reading, writing and math — up from a little more than half two years ago.

prudent and balanced approach

All of this has been achieved with a prudent and balanced approach that allows us to invest in our future prosperity while keeping our taxes competitive.

Mr. Speaker, the McGuinty government is on track to eliminate the fiscal deficit no later than 2008–09. A balanced budget will be achieved a year earlier in 2007–08 if the reserve is not required.

In 2005, the Ontario economy outperformed average private-sector and government projections, resulting in additional revenue. We have made a strategic and prudent choice to invest over 60 per cent of this additional money to begin paying down Ontario's infrastructure deficit.

We are on track to pay down the mortgage, but we have to make sure the foundation is fixed.

The next step in strengthening that foundation — in building opportunity — is our plan to address the infrastructure deficit.

INFRASTRUCTURE – Building a Better Ontario

Mr. Speaker, infrastructure is the schools where our children learn, the hospitals where we are treated, the public transit systems we ride, the roads we drive on, the plants that clean our drinking water and the power stations that keep our lights on.

It's how we get our goods to the world's markets and a big part of how we market ourselves to the world.

Each generation, Mr. Speaker, is called upon to build and renew our vital infrastructure.

build and renew infrastructure

Today, our focus is transportation infrastructure. Quick, reliable and safe transportation is vital to our economic success. It is also essential to our quality of life.

It means the opportunity for our economy to be more competitive by moving goods more efficiently.

It means the opportunity for Ontarians to travel more safely on improved roads and bridges.

Mr. Speaker, that's why I'm proud to announce Move Ontario, a new $1.2 billion investment in public transit, municipal roads and bridges that will build opportunity for each of us.

This initiative has the potential to create up to 27,000 new jobs.

The centrepiece of Move Ontario is a landmark, $838 million investment to enable the expansion and modernization of public transit in the Greater Toronto Area (GTA).

landmark Move Ontario investment

This investment can help build a new subway into York Region and new projects to fight gridlock and speed travel across Brampton and Mississauga.

The City of Toronto and York Region will be able to use $670 million to extend the subway to the Vaughan Corporate Centre at Highway 7.

York Region's population has grown by over 50 per cent in the last 10 years and the City of Toronto has said this was its first choice for expansion.

subway in the 905

For the first time in our history, subway service will be able to extend beyond regional boundaries, from the 416 to the 905 — building opportunity for everyone in the GTA.

We are also providing $200 million in additional support for the City of Toronto's existing subway operations.

The Province will provide $65 million to Mississauga. That city will be able to develop its Transitway — a dedicated bus line along Highway 403 and Eglinton Avenue.

Brampton will benefit from $95 million. It will be able to build its AcceleRide project, providing express bus service through dedicated bus lanes within the city.

Mr. Speaker, I am delighted to have Mayor Miller, Mayor McCallion, Mayor Fennell and York Regional Chair Fisch — our partners in this great undertaking — here today in the gallery.

The Minister of Transportation will introduce legislation this year to establish the Greater Toronto Transportation Authority (GTTA).

The GTTA could promote seamless movement of people and goods, and could oversee an integrated fare card for use across all the GTA transit systems.

new era in public transit

These investments are the beginning of a new era in public transit in the GTA. I know that all members of this house join me in urging the federal government to participate fully in this opportunity.

Mr. Speaker, our vision for transportation infrastructure extends across the province.

In keeping with our commitment to municipalities, in October we will again increase the share of gas tax for public transit, to two cents per litre.

Over five years, this program will have delivered more than $1.4 billion to municipalities.

As of today, municipalities will be able to use the gas tax funding for transit operations as well as for capital.

Mr. Speaker, roads and bridges are crucial to this entire province.

roads and bridges crucial

Through our five-year ReNew Ontario plan, the government will provide a total of $3.4 billion to improve the provincial highway network in southern Ontario and $1.8 billion for highways in northern Ontario.

I am proud to announce today that Move Ontario will provide an additional $400 million in immediate one-time funding, with special emphasis on rural and northern municipalities, for road and bridge repair and upgrading.

Municipalities will determine their own road and bridge priorities. This funding is enough to repair up to 800 local bridges or resurface 3,000 kilometres of municipal roads — about the distance from Thunder Bay to Ottawa and back again.

Ultimately, this will mean safer roads and more reliable movement of goods and people across Ontario.

Timely delivery of goods is vitally important to the province, and exports are the lifeblood of our economy. Ontarians need to know that their borders are safe and secure while allowing the free flow of goods.

More than 70 per cent of the value of Canada–U.S. road trade is carried on Ontario highways. That's why Ontario's border crossings must be a federal priority too.

border crossing priority

We've already made highway improvements near our border crossings to help with traffic flow and safety concerns.

We'll be moving forward with the federal government on our $300 million investment in the Windsor Gateway and the $323 million investment in the Niagara and Sarnia crossings.

Efficient borders are important to people and businesses, Mr. Speaker, and so is electricity.

ambitious building program

This government has taken on one of the most ambitious building programs in North America for new electricity generation. Over the course of three years, the government has initiated dozens of projects to provide, together with our conservation efforts, about 11,000 megawatts of supply over the next five years.

That is enough power for about five million homes.

Hydro One is investing more than $3 billion over the next five years to sustain, expand and reinforce its transmission and distribution systems.

We have also announced a three-year extension of stable pricing for electricity provided by Ontario Power Generation.

Our pricing policy saved electricity consumers about $740 million in 2005 alone.

culture of conservation

This government is committed to creating a culture of conservation.

Our goal is to achieve a 10 per cent reduction in the government's electricity use by 2007 and we are encouraging consumers to reduce their use of electricity with the installation of 800,000 smart meters by 2007.

Be it through new generation or conservation, the McGuinty government will keep the lights on.

HEALTH – Healthier Ontarians

Mr. Speaker, medicare defines us as a province and as a nation.

It's also a unique advantage when it comes to attracting jobs and investment.

It's why we've led the fight to prevent illness, including the ban on smoking in all enclosed public and work spaces; it's why we've provided 2.1 million childhood vaccinations free of charge; it's why we've expanded access to doctors, nurses and other health care professionals; and it's why we've reduced wait times.

We are investing an additional $1.9 billion in 2006–07 and our total additional cumulative investment in health will be $34.4 billion over five years.

Healthier Ontarians

insulin pumps for children

Mr. Speaker, we have to do more. That's why I am pleased to announce that Ontario will now help families living with Type 1 diabetes by funding insulin pumps and related supplies for about 6,500 children by 2008–09. The pumps will help keep these children healthier and reduce emergency-room visits.

Mr. Speaker, Terry Anne Thomson is in the gallery today. She worked tirelessly to bring this issue forward.

Mr. Speaker, I must also thank the member from Thunder Bay–Superior North, Mr. Gravelle, who, typical of the dedicated members of this house, has worked hard on this very issue.

We're also taking steps, Mr. Speaker, to prepare for the possibility of an influenza pandemic, like the avian flu.

And, for the first time in Ontario's history, we have a Minister of Health Promotion dedicated to advocating healthy living and to developing programs that prevent illness and promote wellness.

Better Access

Mr. Speaker, we now have 100 Family Health Teams (FHTs) approved in Ontario that will provide primary care to some 1.7 million Ontarians when fully operational. We are two-thirds of the way towards our goal of 150 FHTs.

more medical graduates

We have provided $27 million in 2005–06, growing to $35 million in 2006–07, to train up to 200 International Medical Graduates each and every year.

We'll be creating 104 new undergraduate medical spaces, including in Mississauga, Kitchener–Waterloo, St. Catharines and Windsor.

Wait Times

Mr. Speaker, surgical procedures are up and wait times are down.

wait times down

Ontario's dedicated health professionals have carried out over 31,000 additional surgical procedures since 2004–05, including procedures that are most needed by Ontarians: cancer surgeries, hip and knee replacements, and cataract and cardiac procedures.

- Wait times for radiation treatment are down by more than a week – an improvement of 16 per cent over last year.
- As a result of investments in MRIs and their operating hours, we've had a 42 per cent increase in the number of exams compared to 2003–04. That's over 100,000 additional exams in two years.

We have created 14 Local Health Integration Networks, which will deliver a more integrated, seamless and community-based health care system.

Health Care Infrastructure

Since we took office, we have improved community-based health care facilities, and added and improved long-term care beds to address the needs of our aging population.

new hospitals started

We have started construction at the new Regional Health Centre in Peterborough and on a major redevelopment project at the Ottawa Hospital.

In 2006–07, we will tender 11 major hospital projects in Belleville, Ajax–Pickering, London, Mississauga, Toronto, Sarnia, Hamilton, Sudbury and Sault Ste. Marie.

EDUCATION – Success for Students

Mr. Speaker, the best jobs and the most investment go to the places with the best-educated and most highly skilled workforce.

We are building educational opportunity every day.

building educational opportunity

As planned, our education funding will increase another $424 million in 2006–07.

Ontario's Best Start plan to provide 25,000 new day-care spaces and increase subsidies for thousands of families was based on an early learning agreement with the federal government. Regrettably, the federal government has terminated the agreement, taking away $1.4 billion intended for child care spaces and subsidies for working families.

The Province has already provided sufficient funding to create over 14,000 new spaces. We will use the final federal payment to provide $63 million per year to support child care.

We are building opportunity for school-age children:

- We've funded an additional 4,300 elementary and high school teachers over the past two years.
- More than half our schools have smaller primary class sizes.
- Literacy and math scores for Grades 3 and 6 students have risen to an average of 62 per cent from 54 per cent just two and a half years ago.
- 600 specialist teachers are in classrooms to help struggling students and to teach physical education, music and the arts.

- We've invested $61 million in extra funding for one million new textbooks and library resources.

Mr. Speaker, the centrepiece of last year's Budget was the historic Reaching Higher plan for postsecondary education — a cumulative $6.2 billion of new investment by 2009–10.

doubling student aid

We are doubling spending on student aid.

We have reintroduced upfront grants and will provide them to 60,000 students this coming school year — up from 32,000 last year.

We will guarantee that students who receive government loans of more than $7,000 per year will have the excess amount forgiven.

We will create about 75,000 new spaces for students.

opportunity to achieve potential

Ontario will be at its best only when every Ontarian has the opportunity to achieve his or her full potential.

Reaching Higher is delivering real positive change for 500,000 students. Our future depends on it.

OPPORTUNITY FOR ALL

Mr. Speaker, when we speak of opportunity for every Ontarian, we mean *every* Ontarian.

In 2006–07, we will be increasing our spending to support Ontario's at-risk youth and vulnerable adults and families by $218 million — to a total of $10.3 billion.

We have already made much-needed improvements to social assistance. Today I'm announcing that we're permanently flowing through increases to the National Child Benefit Supplement for 2004, 2005 and 2006.

In 2006–07, we will increase social assistance basic benefits and maximum shelter allowances by another two per cent.

increasing basic benefits

These improvements will mean that a single-parent family with two children will receive $1,620 more in 2006–07 than they would have had in 2003–04. That's 15.7 per cent more, Mr. Speaker.

In 2006–07, we will provide almost $80 million more in services for people with developmental disabilities. We have also provided more funding to help women escape domestic violence and additional services to protect the homeless.

At-Risk Youth

Mr. Speaker, when it comes to stopping guns and gangs, we need to be tough on those who choose crime and to be tenacious when it comes to giving our youth every opportunity to choose a better path.

Many youth in high-needs communities require support and encouragement to complete high school. The government's Learning to 18 strategy will help young people stay and succeed in school.

support and encouragement for youth

As the Premier and Mike "Pinball" Clemons announced last month, a new Youth Challenge Fund will provide up to $45 million in new resources for community-led programs targeted to young people.

ECONOMIC GROWTH – Investing in Ontario

Jobs and Skills

Jobs and Skills Renewal Strategy

Mr. Speaker, Ontario's economy has created almost 200,000 net new jobs since we took office, about 90 per cent of them full time. They were also primarily in higher-paying occupations.

Our task is to ensure that Ontarians are better prepared for great jobs.

That's why, in addition to Reaching Higher, we're creating a $2.1 billion Jobs and Skills Renewal Strategy, a comprehensive plan to maintain Ontario's skills advantage.

Unemployed Ontarians and the working poor will have access to new training and employment supports and opportunities.

Apprentices and other skilled workers will receive more workforce training.

Social assistance recipients will get the work opportunities and other employment services they need.

New Canadians will have access to more and better language classes and bridge training programs.

At-risk youth will get employment counselling and participate in job placement and training programs.

Mr. Speaker, this strategy will provide more opportunity for more Ontarians to participate fully in our economy.

Research and Innovation

investing in research talent

Mr. Speaker, we know that the jurisdiction that is the first to come up with new ideas and the first to develop them into new products and services will have a prosperous economy and a high standard of living for all its citizens.

That's why we created the Ministry of Research and Innovation, led by Premier McGuinty. Through this ministry, we will be investing nearly $1.7 billion in research and commercialization over five years to 2009–10.

It's why we're investing in research and innovation talent, with three new Innovation Awards programs, and investing $25 million in the Premier Summit Awards for excellence in medical research.

It's why we're providing $100 million for foundation science through two leading-edge research facilities: the Perimeter Institute for Theoretical Physics in Waterloo and the University of Waterloo's Institute for Quantum Computing.

Healthy Business Climate

encouraging diverse economy

Mr. Speaker, Ontario's economic strength also comes from the diversity of our economy.

We are home to Canada's largest manufacturing sector; we are home to the continent's leading auto sector; we are home to the country's leading information and communications technology sector; and we are the hub of Canada's financial services sector, which underpins economic activity across the country.

To help the financial services sector flourish, we will continue with regulatory reform that fosters fair and effective financial markets.

To encourage this diverse economy, we must ensure the vitality of our investment climate.

A competitive tax system is essential to attract business investment and encourage economic growth.

Mr. Speaker, this Budget has no new taxes or tax increases.

capital tax rate cut

In our 2004 Budget, the government announced plans to enhance Ontario's investment climate by gradually phasing out the Province's capital tax, which taxes investment rather than business profits.

So, today, Mr. Speaker, we are proposing a five per cent capital tax rate cut – starting on January 1, 2007, a full two years earlier than planned.

If the fiscal plan allows, we intend to eliminate the capital tax in 2010.

Increased capital investment will lead to more and better jobs.

Entertainment and Creative Cluster

Mr. Speaker, one of the many success stories of Ontario's diverse economy is the entertainment and creative cluster.

This cluster has great potential to grow and create jobs, and it boosts economic growth by attracting tourists, businesses and investors.

Today, we're proposing to extend the enhanced 18 per cent tax credit rate for film production services to March 2007.

We're proposing to expand eligibility for the Ontario Interactive Digital Media Tax Credit and increase the credit from 20 per cent to 30 per cent for smaller businesses.

supporting entertainment and creative cluster

We're establishing an Entertainment and Creative Cluster Partnerships Fund — $7.5 million over the next three years for skills development, product development and marketing.

We're supporting the 2007 Toronto International Arts Festival, which will highlight some of Ontario's cultural landmarks.

And we're providing a further $49 million to support capital projects at the Royal Ontario Museum, Art Gallery of Ontario, National Ballet School, Gardiner Museum of Ceramic Art, Royal Conservatory of Music and Canadian Opera Company.

Manufacturing

Mr. Speaker, our manufacturing sector accounts for about 17 per cent of Ontario's employment and 21 per cent of our gross domestic product (GDP).

In 2005, Ontario's manufacturing sector came under increased competitive pressure due to a higher Canadian dollar and higher oil costs.

In Ontario, industry is rising to the challenge: production and exports are up, productivity is higher and investment is increasing.

industry rising to challenge

Mr. Speaker, Ontario's strategy for automotive investment has leveraged almost $6 billion in investment in this sector, including the new Toyota plant in Woodstock.

Today, Mr. Speaker, we are proud to propose a doubling of our maximum retail sales tax rebate for the purchase of hybrid electric vehicles to $2,000.

Our $500 million Advanced Manufacturing Investment Strategy, our Reaching Higher plan, our investments in infrastructure, innovation and commercialization, and the elimination of the capital tax will help this sector maintain its role as a mainstay of our economy.

Agriculture

Mr. Speaker, Ontario's farming sector employs about 90,000 people and feeds our cities and towns.

While prospects for the sector overall are positive, some farmers face serious challenges.

Ontario farmers need our help, and they are receiving it with more than $800 million over the last three years for farm income stabilization and support programs. This includes our recent $125 million announcement to help grain and oilseed farmers, horticulture farmers and the livestock industry.

helping Ontario's farmers

Research is the most cost-effective support for agriculture. So, over the next five years, $2.5 million will be awarded to outstanding farm innovators – the first awards will be presented at the next Premier's Agri-Food Summit.

I'm also announcing today $25 million for the redevelopment of the Animal Health Laboratory at the Ontario Veterinary College in Guelph to increase our capacity to research diseases like avian flu.

Strong Communities

Mr. Speaker, it is this province's communities that deliver so many of the programs and services that make a difference in people's everyday lives.

We believe in Ontario's municipalities. We've uploaded where others have downloaded.

Increasing support to municipalities

We recently increased our support to municipalities for land ambulance services. The Province will spend an additional $300 million over the next three years towards a 50–50 cost share.

We've demonstrated our support for municipalities through:

- $1.2 billion in Move Ontario funding for transit, roads and bridges;
- gas tax revenues of more than $1.4 billion over five years;
- $763 million through the Ontario Municipal Partnership Fund in 2006;
- up to $2.4 billion through Ontario Strategic Infrastructure Financing Authority (OSIFA) loan commitments;
- a $298 million commitment to renew municipal infrastructure through the Canada–Ontario Municipal Rural Infrastructure Fund; and
- increasing our share of public health funding to 65 per cent this year, and to 75 per cent next year.

Northern Ontario

Mr. Speaker, northern Ontario is a region of great potential.

investing in northern Ontario

I am delighted to announce today $4 million to create a Bio-Energy Research Centre in Atikokan to conduct practical research for the province, the community and the Atikokan Generating Station.

Provincial investments in support of prosperity for northern Ontario include:

- $1.8 billion over five years for the upgrading and expansion of northern highways under the Northern Ontario Highway Strategy; and
- $259 million in low-cost loans from OSIFA to 47 northern municipalities for upgrading local infrastructure.

To help support the forestry industry in improving its competitiveness, in 2005 the government announced $680 million in assistance.

We recently announced a number of new investments totalling $220 million over three years that will help Ontario forestry companies secure and create jobs.

Mineral exploration spending in Ontario has nearly tripled since 2001 to a level higher than in any other province or territory. There is a new diamond mine opening – the first in Ontario's history.

I'm pleased to announce that this year we are investing $10 million in Sudbury's Centre for Excellence in Mining Innovation.

Aboriginal Peoples

Mr. Speaker, we're announcing new initiatives for Aboriginal Peoples, many of whom live in northern Ontario.

We're providing $6 million to First Nations and rural libraries to help strengthen literacy and promote lifelong learning.

First Nations library support

And I'm very proud to announce that we're providing over $800,000 for the Lieutenant Governor's summer camp initiative that encourages literacy.

RESPONSIBLE MANAGEMENT

Mr. Speaker, our plan to build opportunity is working because we have been prudent fiscal managers.

We have made substantial progress on deficit reduction. We have reduced the deficit we inherited by 75 per cent.

prudent fiscal management

We have reduced the 2005–06 deficit to a projected $1.4 billion, an improvement of almost $200 million from 2004–05.

We estimate that the 2006–07 deficit will be $2.4 billion — $1.4 billion if the reserve is not needed. We are on track to eliminate the deficit by 2008–09 — a year earlier in 2007–08 if the reserve is not needed.

The performance of the economy is vital to our fiscal plan.

The Ontario economy added over 81,000 net new jobs in 2005 and we forecast another 85,000 in 2006.

Private-sector forecasters, on average, expect Ontario to see real GDP growth of 2.6 per cent in 2006 and 2007.

Though we are optimistic about economic growth in Ontario, there are always risks beyond our control, including slower U.S. economic growth, rising oil prices and the high Canadian dollar.

Our job, and it is one that we take very seriously, is to ensure that Ontario's economy is in the strongest shape possible to withstand these external challenges.

Federal Government

addressing the fiscal gap

The new federal government has expressed a willingness to address the federal–provincial fiscal imbalance. The McGuinty government is optimistic about the potential positive outcome for Ontarians.

In making our case to the federal government, we will be stressing the importance of investment in infrastructure, in shorter wait times, in postsecondary education, in early learning and child care, in our municipalities and in support to farmers and the forest industry in the way they need and deserve.

We need the federal government to help build a strong Ontario in a strong Canada by continuing to narrow the $23 billion gap between what Ontarians contribute to Confederation and what we receive back in transfers and programs.

CONCLUSION

Mr. Speaker, before I conclude I would like to thank a very dedicated team of public servants in the Ministry of Finance who have worked tirelessly to prepare this Budget. I want to express my sincere gratitude to all of them.

Mr. Speaker, the English philosopher Sir Francis Bacon once said that wise people make more opportunities than they can find.

What we found, Mr. Speaker, when we assumed office, was a health care deficit, an education and skills deficit, a fiscal deficit and an infrastructure deficit.

What we have done, Mr. Speaker, is turn these challenges into opportunities.

Turning challenges into opportunities

Under our plan, and thanks to the efforts of hard-working Ontarians:

Wait times are down, and the number of nurses is up.

Dropout rates are going down and test scores are up.

With the approach we're putting in place today, commute and travel times will come down, as the quality and the quantity of our subways, roads and bridges go up.

Interest on the debt, the debt as a percentage of GDP and the fiscal deficit we inherited are all down.

And take-home pay, corporate profits, jobs and high-paying jobs are all up, up, up.

Mr. Speaker, there is much more to do, but the deficits we inherited are, one by one, being knocked down.

And the people we are privileged to serve are, one by one, being lifted up.

Their education and skills are stronger.

Their health care is stronger.

And their prosperity is stronger.

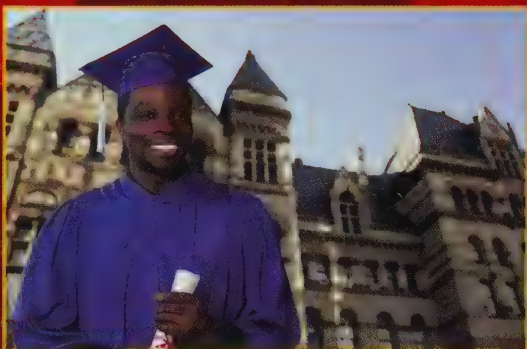
more Ontarians have a shot at success

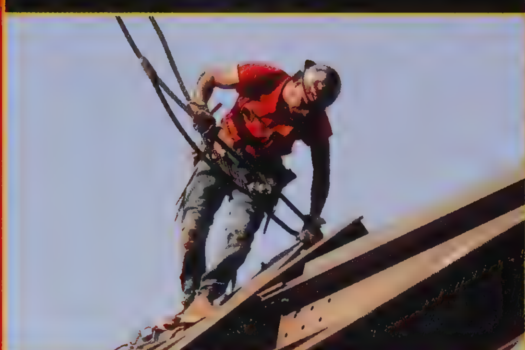
And that means more and more Ontarians have a fair shot at success, and more and more Ontarians are finding success.

That's what happens, Mr. Speaker, when we, as the Premier says, work and grow and dream together.

That's what happens, Mr. Speaker, when we build opportunity for all.

Thank you, Mr. Speaker.





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The Honourable Dwight Duncan
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PAPER A

Building Opportunity, Building a Stronger Ontario

Introduction

Opportunity is the foundation upon which society — and the economy — is built. The government wants every Ontarian to have a fair opportunity to succeed. It is the right thing to do for Ontario's families. It is the smart thing to do for Ontario's economy. Ontario's edge — its competitive advantage — is its people. If Ontario is to be the best it can be, each Ontarian needs to be at his or her best.

The government must ensure Ontarians are healthy, highly skilled and well equipped to compete and win in the truly global economy of the 21st century. The government wants to ensure Ontarians can count on a sound fiscal foundation, based on a prudent and balanced approach that allows the Province to invest in future prosperity while keeping taxes competitive.

But when the McGuinty government came to office in 2003, it inherited a health care deficit, an education and skills deficit, an infrastructure deficit and a fiscal deficit.

The McGuinty government's first budget featured a plan to address the health care and education deficits. That plan is working. Today, family physicians are seeing more Ontarians. First-year medical school spaces will increase by 23 per cent. Fourteen new or upgraded magnetic resonance imaging (MRI) machines have been added to the public system. Wait times are down for key procedures, such as elective cardiac bypass surgery and radiation treatment.

Progress is being made in Ontario's schools. About half of Ontario's students in the crucially important early grades of junior kindergarten to Grade 3 are now in classes of 20 or fewer students. Sixty-two per cent of Grades 3 and 6 students are now meeting the Provincial standard in reading, writing and math — up from about half. There is more help for the students and the schools that need it.

This government's second budget featured a plan to address the skills deficit by reaching higher when it comes to postsecondary education and training. That plan is working. Ontario has launched the most significant investment in higher education in a generation — delivering 75,000 new spaces, doubling student aid, and investing $6.2 billion over five years, as announced in the 2005 Budget, in improved quality, accessibility and accountability in our universities, colleges and apprenticeship programs.

This Budget represents the third major phase of the government's plan to strengthen the province by strengthening its people.

It builds opportunity and equips people for success by addressing the infrastructure deficit. This Budget announces a major new one-time investment of $1.2 billion in roads, bridges and transit systems. This includes a major $838 million investment in transit in the Greater Toronto Area, enabling a bold new subway expansion to York Region, and new

projects designed to fight gridlock and speed travel across Mississauga and Brampton. There is a $400 million investment in municipal roads and bridges across the province, with special emphasis on rural and northern communities.

Ontarians can only prosper if people and goods can move efficiently across the province. Working families' quality of life improves when they spend less time in traffic.

This initiative builds on the government's ReNew Ontario infrastructure investment plan, a more than $30 billion, five-year investment in health care, education, water and wastewater, justice, transportation and transit infrastructure.

The McGuinty government is on track to eliminate the inherited fiscal deficit — no later than 2008–09. The 2005–06 deficit is now projected to be $1.4 billion, down from $5.5 billion in 2003–04. The government has determined that the reserve for 2005–06 is no longer required. A balanced budget will be achieved one year earlier in 2007–08 if the reserve is not needed.

The credit for this progress must go to hard-working Ontarians—almost 200,000 net new jobs have been created since October 2003.

In 2005, again thanks to Ontarians, the economy outperformed both the average private-sector and government planning projections, resulting in revenue gains. The government has made a strategic and prudent choice to invest over 60 per cent of this additional money to pay down Ontario's transportation infrastructure deficit.

Current private-sector forecasts for Ontario largely call for modest growth over the next few years. The impact of higher oil prices and the stronger Canadian dollar has lowered the medium-term economic growth forecast from what was in the 2005 Budget. In an environment where the government is not introducing new taxes or tax increases, this implies modest revenue growth. The government must therefore continue to be prudent and disciplined in its approach to managing the Province's finances.

The government is making real progress, working with Ontarians. Over 11,000 megawatts (MW) of electricity supply and conservation and demand management are expected to be in place over the next five years. Together, that is enough power to supply about five million homes.

This Budget includes an additional $1.9 billion in funding in 2006–07 for the health sector. It supports new health care initiatives, including funding insulin pumps for young people, increased access to breast cancer and newborn screening, steps to prepare Ontario in case of an influenza pandemic, and new investments in hospitals. It builds on the government's plan for student success by achieving gains in literacy and math test scores, and higher graduation rates. This Budget includes the next steps in the McGuinty government's $6.2 billion Reaching Higher plan for postsecondary education and training, as announced in the 2005 Budget.

The new federal government has expressed a willingness to address the fiscal imbalance between itself and the provinces and territories. The McGuinty government is optimistic about the potential positive outcome for Ontarians. The Province needs the federal government to help build a strong Ontario for a strong Canada by continuing to narrow the $23 billion gap between what Ontarians contribute to Confederation and the transfers and services that Ontarians receive in return.

There is much more work to be done to further sharpen the province's competitive edge by strengthening its people and ensuring that every Ontarian can find opportunity.

Section I: Building Opportunity: Building a Stronger Ontario

Building opportunity is about investing in the foundation of the economy to increase opportunity for Ontario families and businesses.

Investing in Economic Infrastructure

Ontario's people provide the hard work, intelligence and know-how of the economy. The province's transportation infrastructure provides the backbone of the economy. But aging and outdated infrastructure is holding Ontario back from even greater growth. Major new investments in public transit, roads, bridges and borders will help strengthen Ontario's economic advantage, ensure future business investment and stimulate job creation in the province.

Every day, infrastructure touches Ontarians' lives. Working families need reliable public transit and roads to travel to and from home, work and school. Businesses need reliable transportation networks to produce goods and services and get them to their markets.

Under the ReNew Ontario infrastructure investment plan, the government and its partners are investing in projects that will increase ridership of public transit, reduce commuter times, promote road safety and ease congestion at Ontario–U.S. border crossings.

This Budget announces Move Ontario, the McGuinty government's new, one-time $1.2 billion investment in transportation infrastructure, including $838 million in new funding for public transit in the Greater Toronto Area (GTA) and $400 million in new funding for Ontario's roads and bridges in municipalities primarily outside the GTA, with special emphasis on rural and northern communities. This money is in addition to ReNew Ontario.

The Move Ontario transit investments would enable 42 million more transit rides in the GTA, resulting in 35 million fewer car trips on Ontario roads and highways each year. The Move Ontario investments in roads and bridges could allow resurfacing of 3,000 kilometres of municipal roads or the repair of up to 800 bridges.

Move Ontario will mean more time with family and less time commuting, a cleaner environment, improved safety, reduced business costs and a better quality of life.

Expanded, Modern Public Transit

The GTA plays a vital role in both Ontario's and Canada's economies. It is a centre of commerce and innovation, and at its core is Toronto, the third-largest financial centre in North America.

With this Budget, the government is providing $838 million for the priority transit projects in the GTA — the largest provincial investment in municipal transit infrastructure improvements in the GTA since the mid-1970s. These projects have the potential to create about 23,000 jobs.

The Greater Toronto Transportation Authority

The Government of Ontario will improve the planning and coordination of public transit in the GTA by:

- introducing legislation in 2006 to establish the Greater Toronto Transportation Authority (GTTA). The proposed GTTA would help achieve the objectives of the Growth Plan for the Greater Golden Horseshoe and the Greenbelt Plan by leading the delivery of an integrated and more convenient transportation system to meet the growing needs of the GTA and Hamilton. The GTTA would plan, coordinate and set priorities for public transit investments and major regional roads; and
- helping to develop the GTA Fare Card System, an integrated-ticket system that would allow people to move easily across nine municipal transit systems and GO Transit with a single fare card. The system will begin to link selected Mississauga Transit and GO Transit services in 2007.

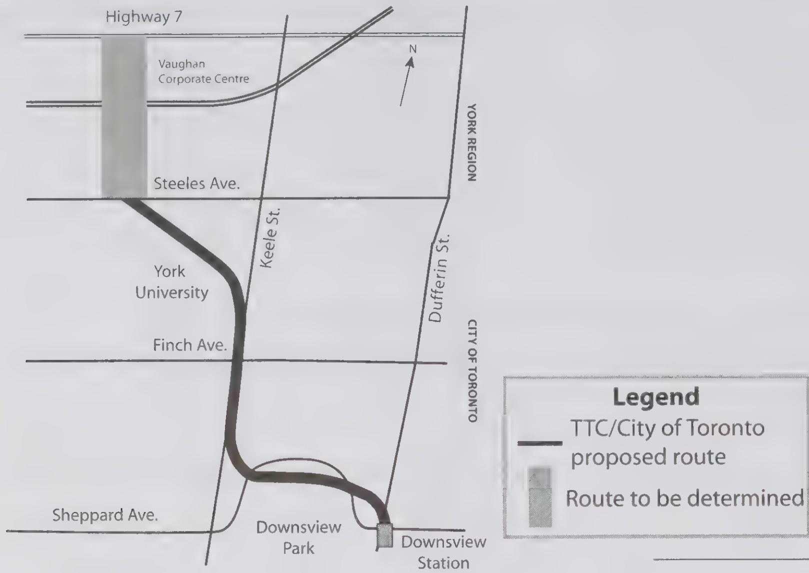
Extending the Subway to York Region

It is time to extend Toronto's subway system into the 905 region.

The government will provide $670 million through a Move Ontario Trust to Toronto and York Region. These municipalities will be able to use the funding for new subway construction that crosses a regional boundary in Ontario for the first time.

This new funding would allow Toronto and York Region to extend the subway to the Vaughan Corporate Centre. A new subway would improve connections with VIVA, York Region's transit system, Brampton Transit and GO Transit. It would also provide rapid transit service to the more than 65,000 individuals commuting to York University. York University is currently the second-largest generator of single-person auto use in the GTA, next to Pearson International Airport. Furthermore, the extension will reduce congestion on the Yonge line and make more effective use of the Spadina line by diverting approximately 10 per cent of passengers from the Yonge line. In February 2005, Toronto City Council reaffirmed that the extension of the Spadina/University subway to Steeles Avenue is the City's top priority for subway expansion.

Proposed Transit Expansion



A subway into York Region will provide a direct benefit to the increasing number of residents of Toronto, York and surrounding regions. The population of York Region alone has grown by more than 50 per cent over the past 10 years. Travel during the morning peak period across the Toronto–York boundary has increased almost as fast northbound (52 per cent), as it has southbound (78 per cent), between 1986 and 2001.

Once the subway extension is up and running, ridership is expected to be 80,000 to 100,000 trips every day, eliminating 67,000 to 83,000 car trips each day.

The Province will explore financial tools to assist the City of Toronto and York Region with their share of the cost of this expansion. This will include a role for the private sector and the use of innovative financing strategies to help fund the project from projected growth in property taxes. For example, the Province intends to introduce legislation to enable tax increment financing for this initiative. This new municipal fiscal tool would be introduced on a pilot basis, allowing for a prudent review of its use in an Ontario context.

In addition to the Provincial and municipal investments, expanding the subway will require support from the federal government. The provincial government welcomes the February 24 statement from federal Finance Minister Jim Flaherty that "we need to address the infrastructure issues, including transit, including the highways. Making sure that goods and services can move effectively in the Greater Toronto Area and all of southern Ontario…is important for Ontario, it's important for Canada, it's important for our economic life."[1]

[1] *The Canadian Press,* February 24, 2006.

The Province will also provide $1 million in funding through Move Ontario towards an environmental assessment relating to the future of the Scarborough subway.

As well as the Move Ontario investment, the Province is providing a one-time $200 million transit investment to the City of Toronto. The City will be able to use this funding to support subway operations.

The Province, in collaboration with the federal government and the City of Toronto, is investing over $1 billion in the City's transit priorities, such as the TTC State of Good Repair program.

These transit funding measures, combined with other funding announcements, including the ability of municipalities to now use the gas tax transfer for transit operating purposes, provide multi-year increases to the City of Toronto that will significantly address its budget pressures until a long-term solution to the fiscal imbalance with the federal government is reached.

Expanding the Brampton, Mississauga and York Region Public Transit Systems

Separate bus rights-of-way and express lanes make it possible for buses to provide faster service, which increases ridership, makes transit travel more attractive, improves connections to other systems, reduces commute times and takes cars off the road.

Move Ontario will enhance GTA public transit systems by:

- providing $95 million to the City of Brampton for transit expansion. Brampton will be able to use this funding for the $280 million Brampton AcceleRide project. The project will make express transit services available on several streets, including Queen Street and Main Street. The first phase of this project would be operational by 2008;
- providing $65 million to support public transit expansion in the City of Mississauga. The City will be able to use this funding to build the Mississauga Transitway, a $259 million project for a separate bus right-of-way along Highway 403 and Eglinton Avenue that would extend from Highways 403/407 in the west to Renforth Drive/Highway 427 in the east, with 14 stations planned along the route. Of the total project costs, the Province will also provide $25 million in GO Transit investments. The Transitway would carry 5,000 to 10,000 people per hour at peak times in 2011; and
- investing $7 million in York Region in support of future expansion. York Region will be able to use this funding for the environmental assessment and detailed planning required for Phase II of VIVA, the new express bus service connecting communities in York Region with each other and with the City of Toronto.

The Province, in partnership with Mississauga, Brampton and York, will be making a significant contribution to transit expansion. However, the federal government must also contribute its share to ensure the successful completion of these projects.

Supporting Transit Across Ontario

Municipalities have indicated that ongoing, predictable funding is a top priority for improving public transit. Providing two cents of gas tax revenues is a key example of the McGuinty government's commitment to public transit in the GTA and across Ontario. The Province will provide municipalities with greater flexibility on the use of the gas tax transfer. Municipalities will no longer be restricted to using this funding for capital transit expansion purposes. They will now also be able to use this funding for transit-system operations.

In addition, the government is moving forward with a new, predictable, multi-year municipal bus replacement program. This program will start in 2007 and replaces the existing Ontario Transit Vehicle Program, which will end today. To ensure existing demands are satisfied until the new program is up and running, the Province is providing $114 million to those municipalities that have placed orders for new buses or bus refurbishments.

The government has already:

- provided $195 million through the gas tax in 2005–06 to 110 municipalities to make improvements to 83 transit systems. By October 2006, the government will have fulfilled its commitment to permanently provide two cents of the gas tax each year to municipalities. After five years, this program will have delivered over $1.4 billion to public transit in Ontario;
- committed $200 million towards construction of the 27-kilometre, North-South Ottawa O-Train Light Rail Transit system;
- partnered with the federal government and municipalities, as part of ReNew Ontario, to invest $1.1 billion to improve GO Transit, through expanded service, new stations and fleet renewal. A recent initiative includes the $73 million investment in new railcars and buses for GO Transit, which will add 20 more bi-level railcars and 31 more highway buses, and provide seats for 6,400 more passengers. In 2005, GO Transit opened three new stations: Mount Joy, Kennedy and Milliken;
- contributed $50 million, along with a matching contribution from the federal government, to the construction of Phase I of the VIVA rapid transit system. When fully implemented, Phase I is expected to increase transit ridership by 30 per cent, moving 7,000 car trips off major highways every day; and
- invested almost $3 million, in partnership with the federal government and Waterloo Region, in studies and environmental assessment work to plan for the Region's proposed 14-kilometre light rail transit system.

All of this investment comes after a decade of decline.

Improving Roads and Bridges

Ontario's roads, bridges and highways play an important role in the movement of people and goods across the province. Carrying more than $1 trillion in goods, provincial highways are essential to Ontario's economic advantage.

The government has invested heavily in improvements to provincial roads, bridges and highways but there is much more to do. Highways must be in good repair if they are to carry goods and people quickly and safely. As well, municipalities have indicated that road and bridge repairs are a top priority. Many are struggling with the costs of maintaining municipal roads and bridges, which are critical to their local economies and quality of life.

In this Budget, under Move Ontario, the government is providing a one-time injection of new funding to municipalities to assist them with road and bridge maintenance and construction projects across the province.

Move Ontario will provide $400 million to help municipalities — primarily outside the GTA, with emphasis on rural and northern communities — address critical investment needs. This $400 million investment would support the resurfacing of almost 3,000 kilometres of two-lane municipal roads or the repair of up to 800 local bridges. Municipal projects could create up to 4,000 jobs.

The Move Ontario investment builds on the government's programs to date in improving roads and bridges across the province. The government has already:

- ensured that road and bridge projects are eligible under the $900 million Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF);
- enabled small communities to borrow money for road and bridge investments at lower rates and under better terms through the Ontario Strategic Infrastructure Financing Authority (OSIFA); and
- provided funding for a number of small but critical ongoing programs through the ReNew Ontario infrastructure investment plan, including programs for Winter Roads, First Nations Roads, Resource Access Roads and Local Roads Boards.

Highways

As announced under the five-year ReNew Ontario infrastructure investment plan, the Province is continuing with investments in critical provincial highway infrastructure.

Key investments include:

- providing a total of $3.4 billion to improve the provincial highway network in southern Ontario and $1.8 billion for highways in northern Ontario. These investments will renew provincial highways and bridges and help address congestion and safety issues on key highway corridors;

- widening Highway 406 from Beaverdams Road to Port Robinson Road in Niagara Region;
- extending Highway 404 to Ravenshoe Road in East Gwillimbury in York Region;
- extending Highway 410 from Bovaird Drive in Brampton to join Highway 10 north of Mayfield Road in Caledon;
- widening Highway 401 from Sydenham Road to Montreal Street in Kingston;
- widening the QEW near St. Catharines, improving safety, reducing congestion and improving border access; and
- moving forward with the environmental assessment for the extension of Highway 427 in Vaughan.

These new investments build on the government's progress to date to improve Ontario's highway system. The government has already:

- invested over $2 billion in highway infrastructure since 2003;
- constructed more than 300 lane-kilometres of new highway, relieving congestion and improving productivity;
- repaired almost 2,500 lane-kilometres of highway since 2003, improving safety and ride quality;
- reconstructed or repaired 152 bridges;
- improved Highway 401 across Toronto and begun improvements in Oshawa and along the Cambridge–Woodstock corridor;
- opened the first HOV lanes on Highways 404 and 403, relieving congestion;
- created new interchanges on the Queen Elizabeth Way (QEW) at Third Line and Guelph Line; and
- accelerated construction to complete the four-laning of Highways 11 and 69 to North Bay and Sudbury.

Secure, Efficient Borders

The Ontario economy depends on the safe and efficient movement of goods and people through Canada–U.S. border crossings. Over 70 per cent of Canada's total road trade with the United States by value flows across Ontario's borders. In 2004, 45 million vehicles, including nine million trucks, used Ontario's 14 border crossings with the United States.

Improving border crossings is an essential investment in Ontario's economic infrastructure.

The government will continue to enhance the movement of goods and people through border crossings by:

- moving forward with the federal government and other partners, with investments of $300 million in the Windsor Gateway and $323 million in the Niagara and Sarnia areas to improve access to key border crossings; and
- working with partners to complete the environmental assessment process that began in 2005 to identify the preferred location for a new Windsor–Detroit border crossing by mid-2007.

The government's new investments build on the progress it has already made to improve border crossings. The government has:

- accelerated the widening to six lanes of Highway 401 from Windsor to Tilbury, addressing safety concerns and improving border access;
- completed intersection improvements at Highway 3 and Outer Drive/Walker Road in Windsor;
- made improvements to Highway 402 near Sarnia;
- made progress to complete the Sault Ste. Marie International Truck Route; and
- completed, with partners, an additional lane on the Queenston–Lewiston Bridge and added new lanes on Highway 405 to reduce congestion.

Research and Innovation, and Electricity Infrastructure

In addition to new investments in public transit, roads, bridges, highways and borders, the government is supporting other important infrastructure projects that invest in people, create opportunity and build Ontario's economy.

Research and Innovation

In a highly competitive global environment, Ontario's future prosperity will increasingly depend on the economy's ability to innovate. Research is a fundamental source of new ideas — the raw material of innovation. Ontario's researchers produce some of the best science in the world.

The creation of a new Ministry of Research and Innovation, led by Premier McGuinty, demonstrates the government's commitment to research and innovation as a key element of Ontario's economic advantage.

The government continues to invest in infrastructure to support research and innovation with its $300 million commitment, announced in the fall of 2004, for projects in Ontario's universities and hospitals through the Ontario Research Fund.

In addition, the Province has recently invested in other research infrastructure projects, including over $13 million towards the Waterloo Research and Technology Park, $10 million towards the McMaster Innovation Park, and $44 million towards the new Medical and Related Sciences (MaRS) Discovery District in Toronto, which helps move discoveries from the laboratory to the marketplace. The government is supporting the development of Phase II of the MaRS Discovery District with an additional contribution of $16.2 million in 2005–06. (For a fuller discussion of the government's nearly $1.7 billion research and innovation initiatives, see Paper B, *Building Ontario's Economic Advantage*.)

Electricity Supply

The government has initiated one of the most ambitious building programs in North America for new electricity generation. Electricity supply projects have been announced with investments from government-owned Ontario Power Generation (OPG) and private-sector investors totalling $11 billion. At the peak of construction activity, there will be over 5,000 workers directly employed at these projects, plus many thousands more working in factories supplying equipment and materials to the projects.

Investments in new and refurbished generation facilities will ensure Ontario continues to benefit from a secure, reliable, stable and affordable supply of electricity. As well as providing for an increase in energy supply, the government has made conservation a central element in its comprehensive energy plan. Two immediate and measurable conservation targets have been set: a five per cent reduction in projected peak electricity demand in Ontario by 2007, and a 10 per cent reduction in the government's own electricity use by 2007. (For more information, see Paper B, *Building Ontario's Economic Advantage*.)

New Electricity Supply	Investment
Renewable Energy Supply	$2.7 billion
Clean Energy Transfer Initiative with Manitoba	$0.1 billion
New Gas-Fired Generation	$3.0 billion
Niagara Tunnel	$1.0 billion
Bruce Power Refurbishment Implementation Agreement	$4.25 billion
Total	**$11.0 billion**

Note: Numbers may not add due to rounding.

Selected Other Infrastructure Investments to Date

- ☐ Under Stage 1 of Good Places to Learn, over $500 million in urgent repairs and construction, including boiler, window and roofing repairs or replacements, are underway at more than 1,600 schools.
- ☐ Committed over $160 million with the federal government to support 35 municipal water and wastewater infrastructure projects through Intake One of the Canada–Ontario Municipal Rural Infrastructure Fund.
- ☐ Invested $11 million in 2005–06 to begin construction of 55 new group-home spaces and 90 specialized-care residential spaces for adults with developmental disabilities in 70 municipalities.
- ☐ Invested $2 million to begin work on two new centres for youth in conflict with the law in the GTA and Sault Ste. Marie.
- ☐ Invested over $6 million in 2005–06 to expand Ontario's forest firefighting capacity by building fire management facilities in Chapleau and Greenstone.
- ☐ Investing up to $23 million to expand and refurbish the Pembroke Courthouse.
- ☐ Invested almost $40 million in the revitalization of Toronto's waterfront.
- ☐ Invested $34 million in 2005–06 for 281 energy conservation projects in government buildings.
- ☐ Provided $60 million in 2005–06 to colleges and universities to improve and maintain classrooms and laboratories, and to purchase and modernize equipment used in college training programs.

Section II: Building Opportunity for People

Every Ontarian needs the opportunity to succeed — opportunity that begins with education. Ontario's future prosperity depends on the education, skills and health of its people.

Getting Results in Education

Early Learning: Best Start

Children need the best start in life to achieve their full potential. The McGuinty government's goal is to ensure that children in Ontario are ready and eager to achieve success in school through high-quality child care and early learning opportunities, and by lowering class sizes from junior kindergarten to Grade 3.

In the 2005 Budget, the Ontario Government began Best Start, an ambitious plan to ensure that children arrive ready to learn on their first day at school in Grade 1. Best Start was to fund 25,000 new licensed child care spaces by 2007–08 and make child care more affordable to thousands of low- and middle-income families through expanding and redesigning child care fee subsidies.

Ontario achieved significant progress in 2005–06 in implementing its Best Start vision. Municipalities have already received sufficient funding to create over 14,000 new licensed child care spaces and a significant number of new subsidies to assist parents with the cost of licensed care.

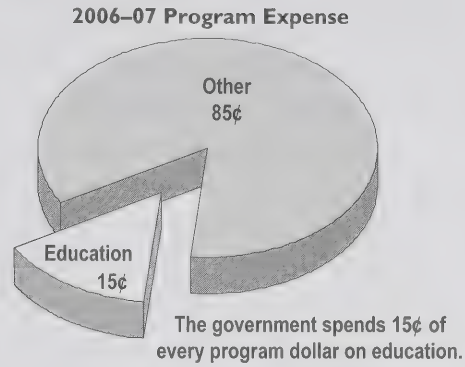
To support the Best Start vision, the Province signed the Early Learning and Child Care (ELCC) agreement with the federal government that was to provide Ontario with $1.9 billion over five years. Regrettably, the new federal government has given notice to terminate this agreement, taking away $1.4 billion intended for child care spaces and fee subsidies for working families. Without sustained federal support, the Province cannot enhance and expand the child care system as originally planned. As stated in the 2005 Budget, "Without these federal transfers, Ontario will not be able to move aggressively in investing in this important area."

Given the elimination of federal ELCC funding after 2006–07, the Province will use the final federal payment to support the child care system. The government will allocate $63.5 million per year over the remaining life of the original agreement, from 2006–07 to 2009–10.

The Province will also work with municipalities to continue to urge the federal government to reconsider and honour the ELCC agreement.

Success for Students

Making publicly funded education the best education is essential to building a bright and promising future for all Ontarians. It also helps Ontario build the best workforce.



Note: Includes Ministry of Education, School Boards and Teachers' Pension Plan, but excludes education property tax revenue.

The McGuinty government is focusing on two key results for students. The first is high levels of achievement in literacy and math for every student before age 12. Students who do well in the early grades are far more likely to complete high school and participate in postsecondary education. In fact, 62 per cent of the province's Grades 3 and 6 students are now reaching the provincial standard, up from just half a few years ago. The government has funded 2,400 additional elementary school teachers over the past two years, so that half of Ontario students in junior kindergarten to Grade 3 are now in classes of 20 or fewer students. The second is to increase the graduation rate. Progress is being made; the percentage of high school students who graduate within five years has risen to 72 per cent in 2004–05, up from 68 per cent the previous year.

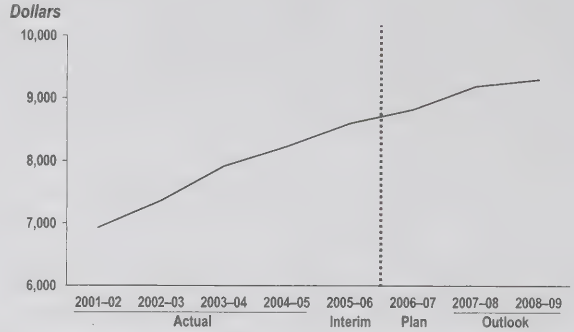
The government has set ambitious targets on these key results for students. Through its education agenda, the government is working to increase the percentage of Grade 6 students performing at or above the standard on the provincial reading and math tests to 75 per cent by 2008 and to increase the proportion of high school students who graduate within five years to 85 per cent by 2010.

To help achieve its key results for students, the government has already funded 4,300 additional elementary and secondary school teachers over the past two years.

To make further progress on these key results, the government's support for Ontario's school boards in the 2006–07 fiscal year will grow by $424 million to $11.2 billion.

The government is building on its plan for student success by working closely with its education partners. In 2006–07, the government is:

Average Per-Student Funding
(School-Year Basis)



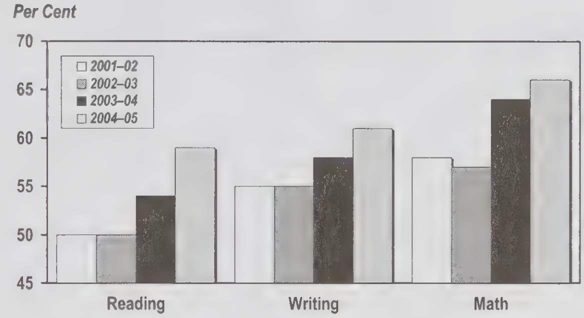
Note: Based on average per-student Grants for Student Needs (GSN) funding. The tables in the Appendix report school boards' net expenses.
Source: Ontario Ministry of Education.

- continuing its plan, first announced in the 2004 Ontario Budget, to make substantial investments in education. By the 2008–09 school year, the Province will provide $18.2 billion in Grants for Student Needs (GSN) funding to school boards, an increase of $2.6 billion, or more than 16 per cent, compared to 2003–04 levels. Average per-student funding will increase by more than $1,375, or 18 per cent, to almost $9,300 during this period;
- increasing GSN funding to school boards in 2006–07 by more than $400 million from the previous year, to $17.3 billion. School boards are funded through a combination of education property tax revenues and direct transfers from the Province;
- providing more than $200 million in 2006–07, beyond funding provided through GSN, for specific programs to increase literacy and math levels and high school graduation rates;
- creating a leadership institute to support principals and other system leaders in focusing on success for students;
- implementing the next steps in achieving a cap of 20 students per class for junior kindergarten to Grade 3, including the hiring of more elementary school teachers;
- implementing measures in 2006–07 to support continued improvement in literacy and math outcomes, including targeted assistance to low-performing schools;
- introducing new measures in 2006–07 to implement the Learning to 18 strategy, including the creation of partnerships between high schools, the community and postsecondary programs to help students achieve success;
- continuing to support school boards to undertake additional projects, including school construction, facility repairs and renewal, under Phase II of the $4 billion Good Places to Learn initiative announced in February 2005;
- working closely with school boards to review board business practices and implement strategies to ensure the effective use of education funding. For example, the Province is helping school boards work collaboratively to reduce costs in purchasing, transportation and capital planning; and
- reforming special education by focusing on good outcomes for all students.

The government is making progress and delivering results. It has already:

- funded 2,400 new elementary school teachers over the past two years, resulting in smaller class sizes in more than 2,100 schools and remaining on track to reduce class sizes to 20 students per class in junior kindergarten to Grade 3. This was accomplished through an investment of $126 million in the 2005–06 school year on top of $90 million provided the previous year;
- supported safe and healthy schools by adding another 600 specialist elementary school teachers in 2005–06 to help struggling students, to teach physical education, music and the arts, and to ensure that students receive a well-rounded education, through an investment of $39 million;
- provided support to help students achieve gains in the Provincial literacy and math tests in each of the past two years. In 2004–05, the percentage of Grade 3 students meeting Provincial standards increased by nine percentage points for reading and math, and by six percentage points for writing compared to 2002–03. The Grade 6 students improved by seven percentage points for reading and math, and by five percentage points for writing over the same period;

Percentage of Grade 3 Students Achieving Provincial Standards (School-Year Basis)



Source: Education Quality and Accountability Office.

- established turnaround teams of experts in literacy and math who provided support to students in 100 schools that fell below the provincial average on literacy and math tests;
- completed training of 16,000 Lead Teachers in literacy and math — the equivalent of four teachers for each elementary school;
- invested $89 million in the 2005–06 school year to support the high school success strategy. This strategy has added 1,300 new high school teachers, providing every high school with a student success teacher to ensure that struggling students get the supports they need to succeed;
- increased the percentage of students in 2004–05 who graduate from high school within five years to 72 per cent, compared to 68 per cent the previous year; and
- funded designated leaders in each school board to develop and coordinate programs for at-risk youth and invested $18 million per year in 2004–05 and 2005–06 for innovative programs designed to increase graduation rates.

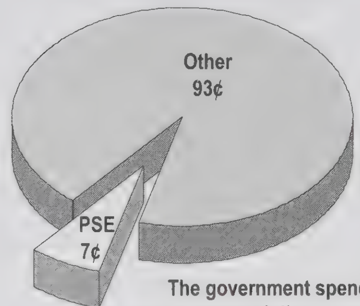
Ontario's progress depends on the skills and knowledge of its people. Ontario will only be at its best when every Ontarian has the opportunity to achieve his or her full potential.

Ontario's colleges and universities must equip people for success by preparing them to generate the ideas, products and jobs that will ensure future prosperity.

Reaching Higher: The McGuinty Government Plan for Postsecondary Education

The 2005 Budget announced the McGuinty government's historic $6.2 billion cumulative investment in postsecondary education by 2009–10.

2006–07 Program Expense



The government spends 7¢ of every program dollar on postsecondary education and training.

Note: Includes Colleges and Ministry of Training, Colleges and Universities.

The purpose of Reaching Higher is to improve access by helping to ensure that every qualified Ontarian has the opportunity to participate in postsecondary education; to improve quality by improving teaching, research and the student experience; and to improve accountability through multi-year agreements with institutions.

Reaching Higher is creating real positive change. It will double spending on student aid. It will guarantee that students who receive government student loans of more than $7,000 a year to finance their education will have the excess amount forgiven. It will increase direct operating funding to universities and colleges by 35 per cent and deliver about 75,000 new spaces for students. It will support innovative research in cutting-edge fields.

Ensuring Greater Access

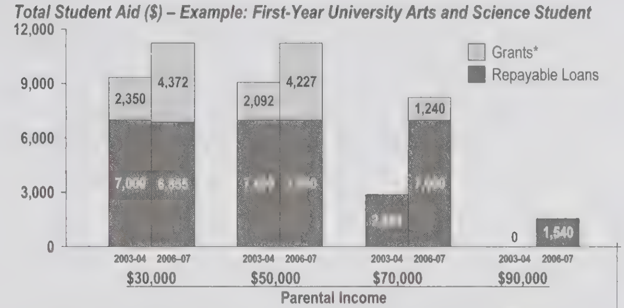
The Reaching Higher plan enhances student aid and other access funding so that no qualified Ontario student will be prevented from attending Ontario's public postsecondary institutions because of inadequate financial resources or other barriers.

The next part of the Reaching Higher plan will:

- implement additional enhancements to student financial assistance for 2006–07 and beyond by increasing loans and grants for low- and middle-income students and ensuring debt levels are manageable and predictable, benefiting 145,000 students. These enhancements will:

Improvements in Student Assistance Under the McGuinty Government

Total Student Aid ($) – Example: First-Year University Arts and Science Student



* Grants include new up-front Access Grants and non-repayable loans in excess of $7,000. Examples are based on a dependent university student living away from home entering a first-year arts and science program. Assumes parents have two children, one in postsecondary and a tuition increase of up to 4.5 per cent in 2006–07.
Source: Ministry of Training, Colleges and Universities.

  - make tuition Access Grants available to students from middle-income families, by more than doubling the income threshold for a family with two children from about $35,000 to $75,000, benefiting 27,000 more students, bringing the total number of beneficiaries to nearly 60,000 in September 2006;
  - raise book and supply allowances for the first time since the mid-1980s so that 75 per cent of student aid recipients will have their actual book costs covered, compared to 13 per cent previously, benefiting 138,000 students;
  - continue to ensure that student debt is limited to $7,000 per completed year through the Ontario Student Opportunity Grant;
  - implement an "Access Window" website in 2007–08 to allow students to identify costs and all sources of financial aid in the institution and program of their choice;

- introduce a regulated tuition framework starting in 2006 under which each institution will be held to an average five per cent overall increase in tuition per year and will be required to demonstrate improvements in quality and access;
  - under the plan, average tuition increases for the coming year will be limited to about $100 for almost 90 per cent of college students and about $200 for almost 70 per cent of university students;

- provide an additional $15 million in 2006–07 to small, northern and rural colleges to improve access to high-quality programs in their communities, rising to $20 million by 2007–08; and
- continue to increase student assistance funding and make further enhancements in future years.

Ontario Student Assistance Plan (OSAP) Enhancements

2004–05:

- ☐ Enhancements to OSAP made to harmonize with earlier federal changes included changes to the definition of an "independent student," extending OSAP to "protected persons," waiving residency requirements for new immigrants, introducing debt reduction for borrowers experiencing difficulty in repayment, and reducing parental contributions.
- ☐ About 50,000 students are benefiting from one or more of these changes.

2005–06:

- ☐ 2005–06 improvements consisted of new Access Grants for up to 32,000 low-income students, increasing the weekly loan limit, reducing contributions from middle-income parents, recognizing computer costs and improving loan repayment assistance where needed.
- ☐ At least 135,000 students from low- and middle-income families have already benefited from one or more of these enhancements in 2005–06 and they will continue to benefit throughout their studies, where eligible.

2006–07:

- ☐ Access Grants will be extended to middle-income families with incomes of up to $75,000, benefiting 27,000 additional students, bringing the total number of beneficiaries to nearly 60,000 in September 2006.
- ☐ 75 per cent of student aid recipients, compared to 13 per cent previously, will have their actual book and supply costs covered, benefiting 138,000 students.
- ☐ Debt will continue to be limited to $7,000 per completed year of study.
- ☐ 145,000 students are expected to benefit from one or more of these new enhancements in 2006–07.

Reaching Higher has already improved access by:

- providing $0.2 billion in new investments in 2005–06 to enhance student financial assistance. These changes benefited at least 135,000 low- and middle-income students in 2005–06;
- providing $48 million in 2004–05 and $115 million in 2005–06 to colleges and universities to compensate them for lost revenue during the two-year tuition freeze. This funding is now built into the operating grants;
- through the new Ontario Trust for Student Support, providing $50 million annually to match funds raised by colleges and universities to establish endowments for student financial assistance;

- providing $10 million in 2005–06 to enhance access services and establish advisory committees to suggest ways to improve participation in postsecondary education by underrepresented groups. This will rise to $55 million by 2009–10 to support new access initiatives;
- providing small, northern and rural colleges with $10 million in additional funding in 2005–06 to increase access to high-quality programs in their communities, bringing special access funding to $52 million in 2005–06; and
- establishing a new community-based nursing education pilot program for 24 students in Dryden, Kenora, Sioux Lookout and Fort Frances, offered jointly by Confederation College and Lakehead University.

Improving Quality

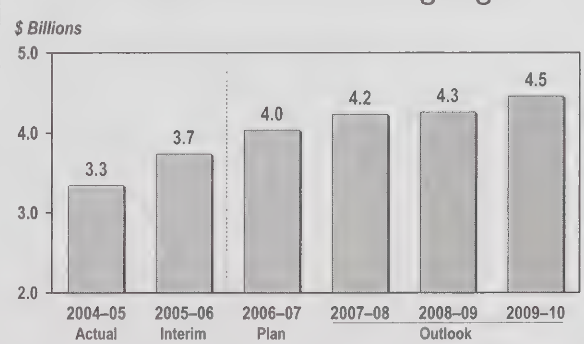
The Reaching Higher plan encourages postsecondary institutions to achieve the highest standards in teaching, research and the student learning experience.

The government has enshrined the link between quality and postsecondary education in law through legislation that establishes the Higher Education Quality Council of Ontario (HEQCO). This independent body will ensure continued improvement of the postsecondary education system by monitoring quality in the sector, access to postsecondary education and the accountability of institutions. The Council will undertake research on the student experience, quality, participation and access, and will advise government on the best way to measure performance and institutional collaboration. HEQCO will also help provide enhanced transparency and accountability in the sector through regular public reports on results flowing from the government's investments.

Reaching Higher will continue to improve quality by:

- enhancing college and university operating grants in 2006–07 by $736 million over base funding in 2004–05. The new operating investment will be 35 per cent higher than 2004–05 base funding by 2009–10, and will result in more faculty–student contact time; high-quality classrooms, libraries and laboratories; and better learning environments;
- continuing to expand graduate education supporting innovative research through $70 million in funding in 2006–07, growing to $220 million annually by 2009–10, which will result in 14,000 new spaces; and

Operating Grants to Colleges and Universities Under Reaching Higher



Note: While the above numbers include the Province's total operating grants to colleges, the tables in the Appendix report colleges' net expenses.

- through Quality Improvement funding, increasing faculty, purchasing additional resources and improving student support services at colleges and universities to accommodate higher enrolment and improve student success.

Reaching Higher has made progress towards improving quality. The government has already:

- provided $211 million to colleges and universities in 2005–06 under the Quality Improvement Fund based on the principle that every dollar will result in improvement and that institutions will be held accountable;
- improved the quality of and access to medical education by providing $95 million in new funding by 2009–10 to create 104 new first-year spaces at medical schools, including in Mississauga, Kitchener–Waterloo, St. Catharines and Windsor. Combined with 56 new medical spaces created in 2005 at the Northern Ontario School of Medicine, there will be a 23 per cent increase in first-year enrolment at Ontario medical schools;
- established the Ontario Research and Innovation Council to advise on and coordinate research priorities and allocate funding based on these priorities;
- provided $250 million in special one-time funding in 2004–05 to colleges and universities to improve and maintain classrooms and laboratories, and to purchase and modernize equipment used in college training programs; and
- allowed universities to apply for Ontario Strategic Infrastructure Financing Authority (OSIFA) loans. OSIFA has begun accepting applications from Ontario universities for low-cost, longer-term and fixed-rate loans to build and renew a variety of university infrastructure projects, such as academic teaching facilities, research facilities, student residences, day-care facilities, and recreation and sport facilities.

Greater Accountability

The government's goal is to monitor the quality and performance of the postsecondary education sector by setting targets and measures.

Under Reaching Higher, the government will continue to enhance accountability by:

- implementing multi-year Accountability Agreements, which set out quality improvement targets with all postsecondary institutions, commencing in 2006–07; and
- improving public reporting of system-wide performance and results.

Reaching Higher has enhanced accountability. The government has already:

- negotiated interim Accountability Agreements between the government and all postsecondary institutions for 2005–06;
- passed into law the Higher Education Quality Council of Ontario Act, 2005; and

- amended the Freedom of Information and Protection of Privacy Act to make Ontario's universities subject to the Act's provisions, ensuring that publicly funded postsecondary institutions are transparent and accountable to the people of Ontario, while respecting academic freedom and competitiveness.

Enhancing Skills Training

The McGuinty government's goal is to provide effective and relevant skills training and other labour-market services, where and when they are needed — because every Ontarian needs access to the tools that are necessary to succeed. Creating a skilled, adaptable workforce will better meet job requirements and keep Ontario industries competitive. The government also wants to improve access to economic opportunities for the most vulnerable, including the unemployed, the underemployed, new Canadians, the working poor and social assistance recipients.

Three landmark agreements covering immigration and labour-market services, signed in November 2005 with the Government of Canada, bring needed resources to assist Ontarians with skills training and finding better jobs. These new agreements will make available $1.2 billion in funding annually by 2009–10 to support training and employment services for Ontarians. They will form part of a comprehensive $2.1 billion Jobs and Skills Renewal Strategy, as will the innovative skills programs and new approaches to service delivery that Ontario announced in the last two budgets. (Details of this strategy are outlined in Paper B, *Building Ontario's Economic Advantage*.)

The government is continuing to enhance its skills training plan by:

- using the new and transferred resources under the three Canada–Ontario agreements to accelerate the expansion and improvement of Ontario's programs and, along with enhanced federal services negotiated by Ontario, provide more and better labour-market services for Ontarians. Ontarians will benefit from integration of services and from reduced duplication and streamlined program delivery through a one-stop approach, making it easier for people to find the programs they need;
- launching a new immigration portal to provide new Canadians and prospective newcomers with better information on the Ontario labour market;
- implementing a pilot Provincial Nominee Program to allow Ontario to identify and recruit skilled immigrants, and concluding a Temporary Foreign Worker Agreement with the federal government to enable employers to bring in skilled workers in areas of pressing need; and
- increasing annual funding to the Newcomer Settlement Program by $1.2 million, or over 25 per cent, to $5.3 million in 2006–07, to provide funding to community-based organizations to enable them to help newcomers become established more quickly.

The government is delivering results in the area of skills training. It has already:

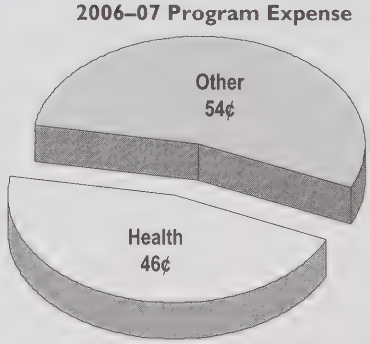
- provided $11.7 million in new investment annually to expand apprenticeship, targeting 26,000 new entrants to apprenticeship each year by 2007–08 and bringing total support to apprenticeship to over $100 million annually;
- introduced an Apprenticeship Training Tax Credit to encourage employers to hire and train more apprentices, providing a tax credit of up to $15,000 over the first three years of an eligible apprenticeship;
- expanded language and training programs for new Canadians to help them bridge to jobs that make full use of their skills. This includes $27 million in 2005–06 for the International Medical Graduate program to fund up to 200 opportunities per year, up from 90 in 2003, for foreign-trained physicians to be assessed and trained in family medicine and needed specialty areas; $21 million in 2005–06 for bridge training programs for other trades and professions; and $51 million in 2005–06 for English- and French-as-a-Second-Language classes for adults;
- begun implementation of $20 million, provided under Reaching Higher in the 2005 Budget, to expand services to prospective apprentices and new Canadians; and
- provided $219 million in 2005–06 for employment and training activities for about 200,000 social assistance recipients to help them gain economic independence, including a new JobsNow pilot program.

Better Access to Better Health Care

Innovation in health care is crucial to ensure that Ontario has a system that is constantly improving.

Investing in better health care for the people of Ontario continues to be one of the McGuinty government's top priorities. A publicly funded health care system defines, in part, what it is to be Canadian. It is one of the ways that Canadians care for one another.

2006–07 Program Expense



The government spends 46¢ of every program dollar on health.

Note: Health program expense includes Hospitals and Ministries of Health and Long-Term Care, and Health Promotion.

To address this priority, the government's investment in health and health care will grow by an additional $1.9 billion to $35.4 billion in 2006–07, rising to $38.8 billion in 2008–09 — $5.3 billion above the 2005–06 level.

Ontario's health system also provides a competitive advantage for Ontario: the cost of employer-paid health-related benefits is lower, rapidly rising health care costs are much less of a factor in private-sector labour disputes, and universal health care coverage promotes labour mobility. This helps attract investment and jobs, especially in light of the soaring cost of private medical insurance.

As one of its first accomplishments, the McGuinty government introduced and passed the Commitment to the Future of Medicare Act, 2004, which protects and improves universal public medicare. The act enshrines into law the five principles of medicare — universality, portability, comprehensiveness, public administration and accessibility — and adds a sixth principle: accountability. The act ensures that every Ontarian has an equal right to quality health care, based on need.

Health Care Innovation in Ontario

The government has recognized that money alone is not the answer. As well as investing an additional $8.2 billion cumulatively over the past two years, the government has introduced legislation to promote integration and cost-effectiveness, and will continue to work with providers and other stakeholders to ensure the system's sustainability for future generations. At the same time, key investments continue to ensure the system's responsiveness to the needs of Ontarians today.

This approach — balancing the need for a sustainable system with key investments to achieve better results — is transforming health care and the health care system in Ontario in many ways, with innovation in:

- primary care in Ontario through interdisciplinary teams, providing greater access to a broader range of care closer to home;
- the governance of the system through the establishment of Local Health Integration Networks (LHINs) that facilitate greater local-level planning and community engagement;
- the management of resources in the system through implementing supply-chain leading practices and streamlining back-office functions;
- improved surgical efficiency in hospitals through the creation of expert coaching teams; and
- the creation of new critical care teams in hospitals that will bring the Intensive Care Unit to patients, wherever they may be in the hospital.

Keeping Ontarians Healthy

With this Budget, the government is further enhancing health promotion and illness prevention by:

- providing $12 million in 2006–07, growing to $30 million in 2008–09, to fund the purchase of insulin pumps and related supplies for young people with Type 1 diabetes. This investment will improve the quality of life for Type 1 diabetics and will help prevent the onset of serious illness;
- providing total funding of almost $35 million in 2006–07, growing to $42 million in 2008–09, to the Ontario Breast Screening Program to increase access to screening for women between the ages of 50 and 74. This funding will support the completion of over 320,000 screens in 2006–07, growing to approximately 385,000 screens in 2008–09;
- investing $7 million annually to enhance the Newborn Screening Program by expanding the number of diseases for which Ontario screens and by supporting the creation of a new state-of-the-art screening facility at the Children's Hospital of Eastern Ontario;
- implementing the Ontario Health Plan for an Influenza Pandemic that will increase the government's stockpile of antivirals and emergency supplies and equipment to protect health care workers and their patients;
- providing almost $1.5 million to the AIDS 2006 Toronto Host Secretariat in support of the XVI International AIDS Conference to take place in Toronto in August 2006. This funding will be used to support the core operations of the conference and help ensure that Ontarians have the opportunity to participate in, and benefit from, this very important conference; and
- strengthening the Province's public health system by increasing the Provincial share of public health costs from 65 per cent in 2006 to 75 per cent on January 1, 2007.

The government has made progress in preventing illness and keeping people healthy. It has already:

- added three new vaccines free of charge (chicken pox, meningococcal disease and pneumococcal disease) to the recommended schedule of routine childhood immunizations. Over the last two years, approximately 2.1 million vaccinations were provided, saving families over $600 per child;
- passed the Smoke-Free Ontario Act in June 2005, which will prohibit smoking in all enclosed public places and workplaces as of May 31, 2006. The government also launched the Smoke-Free Ontario campaign, which includes tobacco protection, prevention and cessation programs;
- created the Ministry of Health Promotion in June 2005. The Ministry is working closely with its partners and all levels of government to develop an integrated

approach to good health, including chronic disease prevention, physical activity, sport development, injury prevention and mental wellness initiatives;

- promoted comprehensive healthy and active living initiatives that target two primary risk factors for chronic disease: physical inactivity and unhealthy eating. The government is working with its partners to make healthy eating choices easier and to increase physical activity participation to 55 per cent by 2010; and
- established the Communities In Action Fund (CIAF) to help bring about a physical-activity and community-sport culture in Ontario. The $5 million fund is helping more than 100 local and provincial not-for-profit organizations provide and enhance opportunities for physical activity and community sport and recreation.

Improving Access

The government will continue to improve access to doctors, nurses and other health professionals by:

- increasing the number of Family Health Teams (FHTs) to 150 by 2007–08 to provide access to primary health care services for approximately 2.5 million Ontarians. So far, the government has announced 100 FHTs across Ontario and will announce the remaining 50 FHTs early in 2006–07;
- implementing a comprehensive Nursing Strategy that acknowledges the key role of nurses in quality health care and increases the supply of nursing professionals in Ontario through investments such as the New Graduate, Late Career, Clinical Simulation Equipment, and Grow Your Own Nurse Practitioner initiatives;
- launching a comprehensive health human resource strategy to attract health care professionals to Ontario and ensure the province has the right supply and mix of health professionals;
- investing $75 million over three years to create an additional 22 Community Health Centres (CHCs) and 17 satellites, to improve access to primary health care. When fully operational, there will be a total of 76 CHCs and 27 satellites serving 530,000 clients across the province;
- investing an additional $300 million over the next three years to move towards a 50–50 sharing of the cost of municipal land ambulance services by 2008. As a result of this commitment, funding for municipal land ambulance services will reach almost $1 billion over three years, to 2008; and
- continuing to expand the capacity of community-based health care services delivered by mental health, home care and other community-based agencies. In 2005–06, the government invested almost $1.5 billion in home care services.

The government has made progress in improving access. It has already:

- invested $34 million over two years in a retention program aimed at retaining late-career nurses in the profession while using their skills and experience to benefit the health care system;
- invested over $30 million over two years to create temporary full-time positions in hospitals and long-term care homes to support new nursing graduates;
- provided $20 million over two years for clinical simulation equipment that provides nurses with hands-on clinical practice as part of their undergraduate training;
- invested approximately $27 million in 2005–06 for International Medical Graduate (IMG) training, assessment and support—a more than 50 per cent increase in funding from the previous year. This funding supports up to 200 IMGs a year in various levels of training and assessment positions;
- introduced the Traditional Chinese Medicine Act to regulate services provided by traditional Chinese medicine and acupuncture practitioners. If passed, the legislation would ensure that Ontarians choosing this alternative approach to health care would receive care from certified individuals;
- invested approximately $51 million in 2005–06 to improve access to maternity services. The funding will support 356 registered midwives and cover costs associated with the new agreement between the government and the Association of Ontario Midwives; and
- improved the quality of and access to medical education by providing $95 million in new funding by 2009–10 to create 104 new first-year spaces at medical schools, including in Mississauga, Kitchener–Waterloo, St. Catharines and Windsor. Combined with 56 new medical spaces created in 2005 at the Northern Ontario School of Medicine, there will be room for a 23 per cent increase in first-year enrolment at Ontario medical schools.

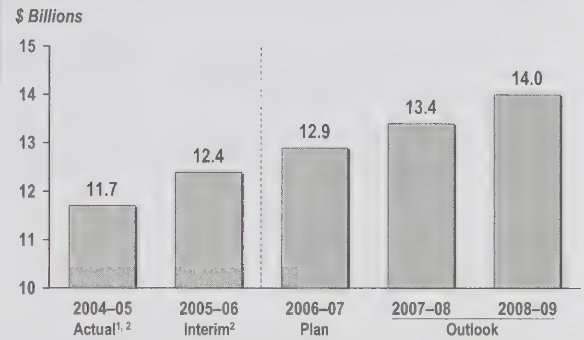
Shorter Wait Times for Key Services

The wait time for elective cardiac bypass surgery has dropped from 30 days to 15 days; for elective angiography, from 23 days to 14 days; and for radiation treatment, wait times are down by more than a week across the province.

The government will continue to shorten wait times in 2006–07 by:

- continuing to support sustainable growth in the hospital sector. Operating grant funding to hospitals will increase to $12.9 billion in 2006–07, $13.4 billion in 2007–08 and $14.0 billion in 2008–09;

Operating Grants to Hospitals



[1] Excludes one-time funding of $0.4 billion provided to hospitals in 2004-05.
[2] Figures reflect the transfer of five former Provincial psychiatric hospitals to public hospitals.
Note: While the above numbers include the Province's grants for the operation of hospitals, the tables in Appendix A report hospital net expenses.
Source: Ministry of Health and Long-Term Care.

- providing funding for additional cancer surgery, cardiac procedures, cataract surgery, hip and knee replacements, and MRI procedures in order to further reduce wait times; and
- further implementing the Wait Times Information System. By December 2006, this single information system will be established in approximately 55 Ontario hospitals. These hospitals perform more than 80 per cent of the key wait-time procedures. This system will ensure that hospitals can accurately manage and prioritize patients, and enhance their reporting on wait times.

The government has made progress in reducing wait times. It has already:

- increased funded hours of operation on existing MRI machines, replaced seven machines and added seven new machines to yield an additional 116,745, or 42 per cent more, MRI exams since 2003–04;
- funded an additional 31,034 surgical procedures since 2004-05, including 3,114, or seven per cent, more cancer surgeries; 5,247, or 20 per cent, more hip and knee replacement surgeries; 15,675, or 15 per cent, more cataract surgeries; and almost 7,000, or seven per cent, more cardiac procedures;
- established wait-time access targets in five key areas — cancer surgery, cardiac bypass surgery, cataract surgery, hip and knee replacements, and MRI and CT scans. These targets were developed after consultation with clinical experts from across Ontario;
- begun reporting hospital-specific wait-time data on a bimonthly basis that can be searched by geographic location and by specific service or procedure;

- committed to invest $148 million over three years to fund three cancer drugs to treat the early stages of breast cancer, lung cancer and prostate cancer; and
- invested approximately $775 million of federal medical equipment funding since 2003–04 to purchase equipment, such as CT scanners, and ultrasound and X-ray machines, that will improve access and reduce wait times for Ontarians. This investment also includes equipment, such as bed lifts, safety alarms, stretchers and call systems, which improves working conditions for nurses and other health care workers.

Modernizing Health Infrastructure

The government's goal is to modernize Ontario's health infrastructure by updating equipment and expanding the capacity to cope with a growing and aging population.

The government will continue to make progress towards this goal by:

- funding additional hospital service quality and expansion projects beyond the 65 new hospital projects approved as part of ReNew Ontario;
- issuing Requests For Proposals for 11 of the 65 new hospital projects in 2006–07, worth $2 billion, through Infrastructure Ontario in the following communities: Ajax/Pickering, Belleville, Hamilton (two projects), London (two projects), Mississauga, Sarnia, Sault Ste. Marie, Sudbury and Toronto;
- providing $85 million in 2006–07 for cancer care equipment and repair and rehabilitation of hospitals; and
- spending $31 million over three years to support the relocation of a significant component of the Central Public Health Laboratory in Toronto and address new and upgraded infrastructure required for other regional public health laboratories, including the relocation of the regional health laboratories in Thunder Bay and London. This will enable the government to better respond to known and emerging threats to public health.

These investments are in addition to a number of health infrastructure projects already underway. The government has already:

- invested over $250 million in 2005–06 to modernize, renew and expand Ontario's hospitals, including the start of construction at the new Regional Health Centre in Peterborough and a major redevelopment project at the Ottawa Hospital;
- invested $35 million in 2005–06 as part of a 10-year strategy to provide stable funding to support cancer radiation equipment upgrades and replacements;
- provided over $40 million to improve community-based health care facilities, which provide services ranging from residential treatment to outpatient therapy and counselling; and

- completed 675 new and redeveloped approximately 2,100 existing long-term care beds in 2005–06 as part of a program to expand and modernize the long-term care sector to address the health care needs of Ontario's growing and aging population. To date, the Province has created over 19,000 new beds and redeveloped almost 11,000 existing beds in Ontario's long-term care homes.

Efficiency and Accountability

The government's goal is to increase efficiency and accountability as the Province moves towards a health care system that is more locally managed, streamlined, cost-effective and focused on results for patients.

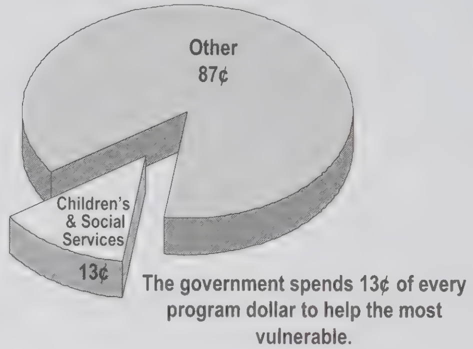
The government will continue to improve efficiency and accountability by:

- working with the 14 LHINs as they assume their roles and responsibilities. LHINs are a key component of the government's plan for changing the health system to ensure people receive the care they need now and in the future. Through improved integration and the coordination of services, LHINs will create a more effective, accountable and sustainable health care system;
- introducing new legislation to fulfil the government's commitment to strengthen standards in long-term care homes, improve care, and ensure residents' safety and dignity;
- engaging in formal consultations in 2006–07, through the Ontario Seniors' Secretariat, with the goal of establishing a new regulatory framework for strengthening standards of care in Ontario's retirement homes; and
- working with hospitals to ensure that all 152 organizations balance their budgets while maintaining high-quality care. By the end of 2005–06, it is anticipated that up to 139 of the 152 public hospitals will have signed Hospital Accountability Agreements that clearly define the responsibilities of hospitals and the government, and commit the hospitals to balancing their operating budgets.

The government has already taken significant steps to improve efficiency and accountability. It has:

- enacted the Local Health System Integration Act, 2006, which is an important step towards a more integrated health care system and better patient care;
- announced multi-year funding for individual hospitals for the first time in Ontario's history. This provides individual hospitals with the funding certainty required to enhance their longer-term planning; and
- partnered with over 100 hospital and health care institutions across the province in various OntarioBuys-funded projects to improve their supply-chain practices and processes. The result is that these institutions are able to free up valuable time and resources to improve service levels and support the delivery of better patient care.

2006-07 Program Expense



Note: Includes Ministries of Children and Youth Services, and Community and Social Services.

The McGuinty government recognizes that, in order to ensure that each and every Ontarian can participate in Ontario's prosperity, it must ensure that the appropriate support and opportunities are available for all Ontarians.

Only when youth are given the right support in their communities and schools will they seize the opportunity to succeed. Only when the most vulnerable citizens receive the services and other supports they need will they be able to benefit from Ontario's prosperity. And only when families have the support they need to secure the most basic of needs, and to make the transition from social assistance to paid employment, will they be able to contribute fully to a strong and growing economy.

To address these challenges, the government's investment to support Ontario's at-risk youth and vulnerable adults and families will grow by an additional $218 million to $10.3 billion in 2006–07, rising to $10.6 billion by 2008–09.

In addition to the initiatives described below, the government is creating a Jobs and Skills Renewal Strategy that will build the opportunity for more Ontarians to upgrade their skills and participate more fully in the economy.

At-Risk Youth

The government is investing in new supports for at-risk youth by:

- establishing the Youth Challenge Fund, chaired by Mike "Pinball" Clemons, which will provide up to $45 million in Provincial and private-sector funding beginning in 2006–07 to support community-led programs in Toronto that offer young people positive alternatives to guns and gangs;
- enhancing the Learning to 18 strategy through:
  - the addition of a new Specialist High-Skills Major to the Ontario Secondary School Diploma;
  - the expansion of cooperative education programs;
  - the introduction of new coordination efforts and formal links between high schools and postsecondary education, including allowing students to earn college, apprenticeship and university credits as part of their high school program; and

- providing more than $28 million in the first three years of a new Youth Opportunities Strategy to expand employment and training programs and support the hiring of new outreach workers in at-risk communities, first in Toronto, and then expanding to additional communities across the province, including Windsor, Ottawa, London, Hamilton and Thunder Bay.

The government has already:

- invested $23 million over three years in Ontario schools for a Bullying Prevention Strategy;
- provided $20 million annually for the Community Use of Schools program to increase access to schools after hours to not-for-profit groups at reduced rates;
- announced a $51 million Enhanced Anti-Gun and Gang Violence Strategy, including funding to help police and prosecutors investigate and prosecute gun crimes;
- launched ACTIVE2010, providing $17 million for sports and recreation activities;
- provided $500,000 to the City of Toronto for a second consecutive year for its Jobs-For-Youth program to help about 300 youth from high-risk neighbourhoods get summer jobs; and
- provided additional loans and new grants to low-income students to help increase access to postsecondary education and training.

Adults and Families

The government has introduced a number of initiatives to assist working-age adults in making the transition from social assistance to employment, to support persons who are least able to care for themselves, and to improve income support for low-income adults and families.

Transition from Social Assistance to Employment

The government is continuing to improve programs that help working-age adults make the transition from social assistance to paid employment by:

- investing $4 million in a new Employment Innovations fund, which will engage employers in expanding job opportunities for Ontario Disability Support Program (ODSP) and Ontario Works (OW) recipients.

This investment builds on the government's previous initiatives that support the transition to work. The government has already:

- increased and simplified the OW and ODSP earnings exemption rates to 50 per cent on all earnings, providing a better incentive for clients to work and easing the transition from social assistance to employment;

- extended health benefits, for six months for people exiting OW and indefinitely for those exiting ODSP for employment, unless employer health benefits are available;
- increased the maximum deduction for informal child care costs for OW and ODSP from $390 to $600 per month;
- created a new employment benefit of up to $500 to help OW recipients who obtain full-time employment pay for job-related expenses, such as uniforms and transportation, and created a new monthly cash allowance for ODSP clients to help cover their expenses when they find jobs;
- implemented JobsNow, a pilot project that helps people who have been receiving social assistance for more than 12 months re-enter the job market, by providing access to job opportunities and longer-term job retention supports; and
- provided scheduled increases in the minimum wage, reaching $8 per hour in 2007.

Developmental Services and Other Supports for the Vulnerable

With this Budget, the government is making key investments to improve the lives of persons with developmental disabilities, low-income seniors and other vulnerable people in our society by:

- increasing funding by almost $80 million in 2006–07 for services for people with developmental disabilities, which will expand residential services and community supports, help support agency operating costs, increase supports to families caring for family members and expand day programs. All together, this represents more than a 16 per cent increase in developmental services funding since 2003–04;
- providing increased services for children with special needs through additional funding of $10 million;
- increasing funding to domiciliary hostels — places of board or lodging for people who need supervision of their daily living activities — by $7 million in 2006–07 and developing common service standards;
- providing a two per cent increase in 2006–07 to both the Comfort Allowance for low-income seniors in long-term care homes and the Personal Needs Allowance for social assistance recipients in care facilities;
- providing an additional $11 million in 2006–07 to enhance interpreter and intervenor services for people who are deaf, hard of hearing, or deaf–blind; and
- proposing another enrichment to the Ontario Property and Sales Tax Credits so that seniors who receive the guaranteed minimum level of income from governments would get the full benefit of the credits.

These investments build on previous initiatives to help those most in need of support. The government has already:

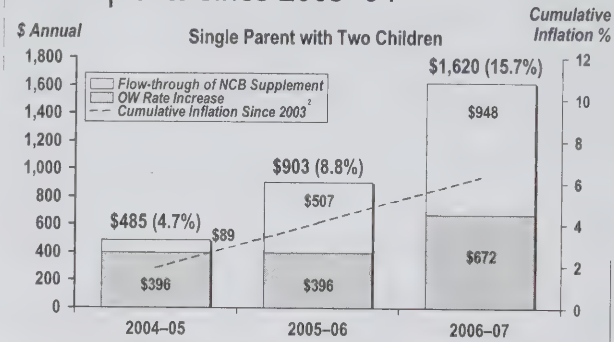
- increased funding for services for people with developmental disabilities by $110 million between 2003–04 and 2005–06 to create 390 residential spaces, reduce wait lists by 85 per cent for special services at home and provide up to 1,000 new day programming spaces for young adults with developmental disabilities who are leaving school. In addition, as part of the overall increase in funding, developmental services agency base funding was increased by $20 million to help support operating costs, and enhance safety and security;
- protected tenants by setting rent-increase guidelines and setting up a Provincial Rent Bank to help low-income tenants pay short-term arrears;
- provided more than $127 million in 2005–06 for emergency shelters and homelessness programs, including programs to move people from the street to emergency accommodation, to move people from hostels to permanent accommodation, and to assist individuals to remain in permanent accommodation;
- invested approximately $68 million in a comprehensive Domestic Violence Action Plan, with better community supports to protect victims and focus on public education, early intervention, and prevention;
- reinvested $42 million in National Child Benefit (NCB) savings in Children's Treatment Centres and Children's Mental Health. In 2004–05, the Province spent about $57 million and $328 million to support these services, respectively;
- beginning in 2004–05, provided a three per cent increase to the Comfort Allowance for seniors in long-term care homes and the Personal Needs Allowance for social assistance recipients in care facilities; and
- enriched the Ontario Property and Sales Tax Credits for seniors by increasing the underlying property tax credit amount for seniors by 25 per cent, from $500 to $625 beginning in 2004, and increasing the income threshold at which senior couples' benefits are reduced beginning in 2005.

Improved Support for Social Assistance Recipients

The government is improving income security programs for low-income adults and families by:

- increasing social assistance basic needs and maximum shelter allowances for recipients of OW and ODSP by two per cent. This will provide an additional $33 million in benefits in 2006–07 and $80 million in 2007–08 and beyond to social assistance recipients. Municipalities will not be required to share the cost of the increase in 2006.
    - For a single parent with two children receiving the maximum OW benefit, this increase would provide $276 annually, in addition to his or her OW rate increase of $396 in 2004–05. Combined, the increases mean that this same family would have $672 more in 2006–07 than it would have had in 2003–04.

Increases in Income of Ontario Works Recipients Since 2003–04[1]



1 Increases in income are those associated with the 2004-05 OW rate increase, annualized 2006-07 OW rate increase and flow-through of the NCBS since July 2004.
2 Inflation rate is reported on a calendar-year basis.
Source: Ontario Ministry of Finance.

- making permanent the flow-through of the July 2004, 2005 and 2006 increases to the National Child Benefit Supplement (NCBS). This will provide an additional $56 million in 2006–07 and $75 million in 2007–08 to families receiving social assistance.
    - This means that a single parent on OW with two children would retain $948 more in income in 2006–07 than he or she would have in 2003–04.
    - The increases in social assistance benefits combined with the flow-through of increases to the NCBS mean that the same single parent with two children on OW will have $1,620 more in income in 2006–07 than he or she would have had in 2003–04. This is equivalent to a 15.7 per cent increase in income from these sources over the same period.

The government has made progress in helping to enhance income support for low-income Ontarians. The government has:

- implemented a three per cent increase in social assistance benefits in 2004–05 and flowed through increases to the NCBS since July 2004;
- restored the nutritional allowance for pregnant women receiving social assistance;
- eliminated the lifetime ban on social assistance for those who commit welfare fraud;
- implemented policies that provide greater future educational opportunities for social assistance recipients; and

- reinvested $135 million in NCB savings into the Ontario Child Care Supplement for Working Families (OCCS). The OCCS is a $200 million earnings- supplement program for low- and moderate-income working families with young children that is designed to promote attachment to the labour force.

Affordable Housing

A new Canada–Ontario Affordable Housing Program Agreement between the federal and provincial governments will result in a significant investment in affordable housing. The two levels of government will each provide $301 million, with additional contributions from municipal governments. This new agreement will bring the overall investment in affordable housing to at least $734 million. The investments will provide:

- approximately 15,000 new affordable housing units, including housing for victims of domestic violence, for persons with mental disabilities, and for those in northern and remote communities;
- approximately 5,000 housing allowances for eligible lower-income families;
- a home ownership fund to provide capital subsidies to eligible homebuyers with low to moderate incomes; and
- the creation of the Ontario Mortgage and Housing Initiative to assist developers of affordable housing with low-cost, long-term financing for new rental and supportive housing units.

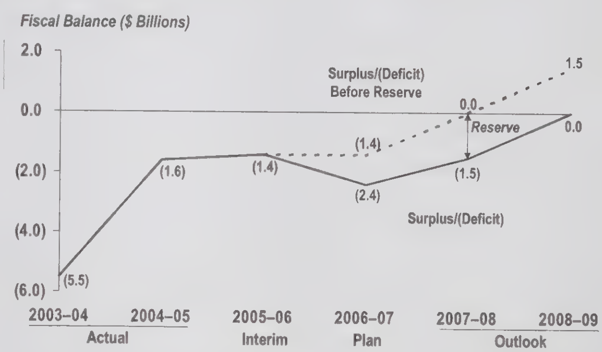
Section III: Ontario's Medium-Term Economic and Fiscal Outlook

The government's investments in education, health, infrastructure and a strong economy rely on a strong fiscal foundation. In 2003–04, the Province of Ontario recorded a $5.5 billion deficit. This was the result of a prolonged period where annual growth in Provincial spending exceeded annual growth in Provincial revenue.

By introducing a responsible and disciplined approach to fiscal planning, this government has quickly made progress towards balancing the Province's budget. The 2004–05 deficit was $1.6 billion—a $3.9 billion improvement over the 2003–04 deficit. Higher revenues, combined with lower interest on debt expense, have given the government the flexibility to invest further in key priority areas and still improve upon the 2005 Budget deficit projection for 2005–06 of $2.8 billion. In addition, the $1.0 billion reserve, included to protect the achievement of the government's fiscal target in 2005–06, is no longer required. As a result, this Budget projects an interim deficit forecast of $1.4 billion for 2005–06 — a $186 million improvement from 2004–05, and a $1.4 billion improvement on the 2005 Budget projection.

The government remains committed to achieving its fiscal targets. The Province's fiscal plan includes historic and long-term investments in infrastructure, postsecondary education and training, education, health, and programs for Ontario's vulnerable and at-risk youth, while eliminating the deficit no later than 2008–09. The medium-term fiscal outlook confirms the deficit targets established in the 2005 Budget — $2.4 billion in 2006–07, $1.5 billion in 2007–08 and eliminated in 2008–09. A balanced budget will be achieved one year earlier if the $1.5 billion reserve is not required in 2007–08.

Ontario's Medium-Term Fiscal Plan



Source: Ontario Ministry of Finance.

KEY ELEMENTS OF ONTARIO'S MEDIUM-TERM FISCAL PLAN

The Fiscal Transparency and Accountability Act, 2004 sets out a number of criteria that the Province's fiscal plan must meet. The purpose of these criteria is to ensure the highest level of transparency and accountability in fiscal planning and reporting.

Since this legislation came into effect in December 2004, the government has consistently met the requirements under the act, advancing the yardsticks on transparency and accountability. More information, timely reporting and increased disclosure about fiscal and economic risks and sensitivities have strengthened public and investor confidence in the fiscal outlook provided by the government.

The act requires the Ontario Government, when it plans for a deficit, to outline a recovery plan to balance the budget. The key elements of the government's fiscal plan to eliminate the deficit by 2008–09 at the latest include:

- making disciplined decisions that hold the annual rate of growth in total spending to 3.0 per cent on average over the medium term — much less than the 4.7 per cent average annual rate of growth in total revenue;
- promoting a strong economy by investing in Ontario's infrastructure, health care, education, and postsecondary education and training;
- working constructively with the federal government towards a principled and sustainable set of federal–provincial fiscal arrangements that will narrow the $23 billion gap;
- responsibly maintaining a cautious and prudent fiscal planning process, including an annual reserve; and
- finding $750 million in program review savings by 2007–08, of which $407 million has already been identified.

MEDIUM-TERM ECONOMIC AND REVENUE OUTLOOK

Ontario's fiscal plan is inextricably linked to the outlook for economic performance. In a fiscal plan with no new taxes or tax increases, economic growth largely determines the amount by which taxation revenues will increase. At the same time, aspects of economic performance, such as employment, incomes and consumer prices, affect Provincial expense on social services. Interest rates can have a significant impact on Ontario's economy and on the cost of financing the government's debt.

Ontario is expected to record sustained economic growth over the forecast horizon. Despite the challenges arising from the global economic environment, private-sector forecasters all project ongoing economic growth for Ontario, with real gross domestic

product (GDP) growth forecasts averaging 2.6 per cent in 2006, 2.6 per cent in 2007 and 3.1 per cent in 2008.

High oil prices, a strong Canadian dollar and higher interest rates are expected to restrain economic growth in 2006. As the Ontario economy adjusts to the changing global economic environment, growth is expected to improve over the medium term.

Ontario Economic Outlook (Per Cent)

	Actual		Forecast		
	2004	2005e	2006	2007	2008
Real GDP Growth	2.7	2.7	2.3	2.5	2.9
Nominal GDP Growth	4.9	5.3	4.5	4.3	4.7
Unemployment Rate	6.8	6.6	6.3	6.2	6.1
CPI Inflation	1.9	2.2	2.1	1.8	1.8

e = Ministry of Finance estimate for real and nominal GDP growth.
Sources: Statistics Canada and Ontario Ministry of Finance.

The global economic environment could unfold in a variety of ways, which could significantly influence Ontario's economic growth over the next few years. For example, private-sector forecasts for the Canadian dollar in 2008 range from 81.6 to 88.6 cents US, and for oil prices from $41.70 to $56.10 US per barrel.

Key External Factors Affecting Ontario's Economy Average Private-Sector Forecast

	Actual		Forecast		
	2004	2005	2006	2007	2008
Canadian Dollar (Cents US)	76.8	82.5	86.6	86.9	85.9
Crude Oil ($ US per Barrel)	41.4	56.5	60.5	56.6	49.9
U.S. Real GDP Growth (Per Cent)	4.2	3.5	3.4	3.0	3.1
3-month Treasury Bill Rate (Per Cent)	2.2	2.7	3.9	4.1	4.3
10-year Government Bond Rate (Per Cent)	4.6	4.1	4.3	4.6	5.2

Sources: Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators (March 2006)* and Ontario Ministry of Finance Survey of Forecasts (March 2006).

Given the uncertainty inherent in making projections, it is appropriate for the government to be cautious in its fiscal planning. One aspect of this caution is the economic growth forecasts. For the purposes of this Budget, Ontario real GDP growth is projected to be 2.3 per cent in 2006, 2.5 per cent in 2007 and 2.9 per cent in 2008, below the average private-sector forecast in every year. This Ontario economic outlook suggests fairly modest revenue growth in the near future, reinforcing the need for a prudent and disciplined approach to new expenses.

For more information on Ontario's economic outlook, see the Appendix to Paper B, *Ontario's Economic Outlook*.

Medium-Term Revenue Outlook ($ Billions)

	Interim	Plan	Outlook	
	2005–06	2006–07	2007–08	2008–09
Taxation Revenue				
Personal Income Tax	21.0	21.7	22.9	24.3
Retail Sales Tax	15.5	16.2	17.1	18.0
Corporations Tax	9.7	9.8	10.2	10.5
Ontario Health Premium	2.4	2.6	2.7	2.8
All Other Taxes	11.0	11.0	11.4	11.5
Total Taxation Revenue	59.7	61.3	64.2	67.1
Government of Canada	13.2	13.6	14.9	15.3
Income from Government Enterprises	4.2	3.9	4.1	4.3
Other Non-Tax Revenue	6.8	7.0	7.0	7.3
Total Revenue	**83.9**	**85.7**	**90.3**	**94.0**

Note: Numbers may not add due to rounding.

Total revenue is forecast to increase by $1.8 billion or 2.1 per cent in 2006–07. In 2008–09, total revenue is projected to be $94.0 billion, an increase of $8.2 billion over the 2006–07 forecast of $85.7 billion, representing annual growth averaging 4.7 per cent.

Taxation Revenue is forecast to increase by $1.5 billion or 2.6 per cent in 2006–07 and by $5.8 billion between 2006–07 and 2008–09, with annual growth averaging 4.7 per cent. This is consistent with nominal GDP average annual growth of 4.5 per cent over the 2006 to 2008 period. This forecast includes no new taxes or tax increases.

- The **Personal Income Tax and Ontario Health Premium** revenue forecasts are consistent with the outlook for rising employment, wages and incomes.
- **Retail Sales Tax** revenue growth projections are based on the forecast for increased household and business spending.
- **Corporations Tax** revenue increases are based on the forecast for growth in pre-tax corporate profits over the 2006 to 2008 period, and reflect the government's decision to accelerate the capital tax rate cut.
- The forecast for revenue from **all other taxes** is based on the outlook for economic growth outlined in the Appendix to Paper B, *Ontario's Economic Outlook*.

Transfers from the Government of Canada are forecast to rise by $0.4 billion or 2.7 per cent in 2006–07, largely due to higher transfers under existing agreements,

and new transfers under the 2005 Canada–Ontario Agreement and the Labour Market Development Agreement. This increase in 2006–07 is fairly modest based on the final revenue being realized in 2005–06 from past federal Canada Health and Social Transfer Supplements and Medical Equipment Funds. Government of Canada transfers are projected to increase by $1.7 billion between 2006–07 and 2008–09, with annual growth averaging 6.0 per cent. This forecast is based on existing federal–provincial agreements and funding commitments, including the 2005 Canada–Ontario Agreement. Government of Canada transfers for Early Learning and Child Care are not included in the revenue outlook from 2007–08 onwards due to the new federal government's announced termination of the agreement.

Income from Government Enterprises is forecast to decline by $0.3 billion or 6.9 per cent in 2006–07 and then increase over the forecast period. This forecast is based primarily on information provided by government business enterprises. The 2006–07 decline is due to lower net incomes from the Ontario Lottery and Gaming Corporation (OLGC), Ontario Power Generation (OPG) and Hydro One. The OLGC net income decrease in 2006–07 is largely due to competitive pressures on border casinos. OPG and Hydro One's combined net income is expected to decrease in 2006–07 from the higher-than-expected net income in 2005–06, which was partly the result of higher electricity demand and prices during the unusually hot summer. In addition, OPG's 2006–07 net income is projected to decrease as a result of the government's strategic decision to help Ontario's consumers by improving electricity price stability and by extending for three years and initially lowering the transitional revenue limit on most of OPG's unregulated output. The combined net incomes of government business enterprises are projected to increase over the medium term.

Other Non-Tax Revenue is forecast to increase by $0.2 billion, or 2.7 per cent, in 2006–07, and by $0.3 billion between 2006–07 and 2008–09, with annual growth averaging 2.2 per cent. Other Non-Tax Revenue includes a variety of revenue sources, such as reimbursements to the Province for services; government licences, permits and other fees; revenue from sales and rentals; and Crown resource royalty payments to the Province. Non-tax revenue sources tend to be mainly influenced by demographic factors, revenue policies and cyclical factors that affect some revenues, such as royalties from Crown timber.

Federal Transfer Payments

Federal transfer payments are a key element in determining the financial resources that Ontario can allocate to its priorities. This year, federal transfers will constitute 16 per cent of Ontario's total revenues. The revenue from these federal transfers plays a vital role in ensuring the Province has the ability to support economic growth and deliver quality public services.

Effective Partnerships

Over the last few years, the federal government has made significant investments in transfers to provinces to begin to address cuts made during the mid-1990s. The vast majority of this funding has been directed to health care. The most important of these increases in health transfers was the funding for the reduction of wait times in priority areas and guaranteed annual increases in the Canada Health Transfer (CHT). These federal investments, agreed to at the September 2004 First Ministers' Meeting on health care, do not represent a permanent solution to Ontario's health funding challenge. However, this funding is an essential element in Ontario's ongoing efforts to meet the significant challenges posed by the rapidly growing demands of the Province's health care sector. It will be essential to maintain and increase the current growth of federal transfers, as well as manage growth in health care spending, to prevent any erosion of health care in Ontario.

Ontario and the federal government have also made progress in addressing the gap between federal revenues collected in Ontario and the transfers and services that Ontarians receive in return from the federal government, determined to be $23 billion in 2004.

In May 2005, Ontario and the federal government reached an agreement that committed the federal government to invest $5.75 billion over five years in Ontario. These investments were to be targeted at the areas of higher education, labour-market development, immigrant settlement, cities, housing, infrastructure, climate change, implementing a single corporate tax collection system, and harmonizing federal and provincial meat inspection. In the 2005 federal Fall Economic and Fiscal Update, this commitment was extended by one year, increasing the funding to Ontario to $6.9 billion.

Ontario welcomes the new federal government's commitment to uphold the 2005 Canada–Ontario Agreement.

The revenue and expense impacts of the 2005 Canada–Ontario Agreement for 2006–07 to 2008–09 have been built into Ontario's medium-term fiscal plan where the money is to flow directly to the Government of Ontario. Ontario will work with the federal government to finalize the timing of the remaining funding under the Agreement.

REVENUE FROM 2005 CANADA–ONTARIO AGREEMENT INCLUDED IN ONTARIO'S MEDIUM-TERM FISCAL PLAN ($ MILLIONS)

	2006–07	2007–08	2008–09	Three-Year Total
Immigration[1]	2	2	2	**6**
Labour Market Partnership	93	108	155	**356**
Corporate Tax Collection	–	250	150	**400**
Higher Education	–	350	400	**750**
Housing	150	–	–	**150**
Infrastructure	–	100	100	**200**
Climate Change	40	140	158	**338**
Total Included in Fiscal Plan	**285**	**950**	**965**	**2,200**

[1] Annual funding to support the development of an immigration portal. Under the Canada–Ontario Immigration Agreement, $320 million annually by 2009–10 in newcomer services will be delivered to Ontarians by the federal government.

To date, the 2005 federal commitment has resulted in three signed agreements. An Agreement in Principle for funding for cities was reached in June 2005 to help them fund their infrastructure needs. The Canada–Ontario Immigration Agreement and the Canada-Ontario Labour Market Partnership Agreement (LMPA) were reached in November 2005 to help newcomers and other Ontarians secure better jobs. The Immigration Agreement provides $320 million annually by 2009–10 for newcomer services, to be delivered by the federal government. The LMPA provides $314 million annually by 2009–10 for labour-market services, half to be transferred to Ontario and half to be delivered to Ontarians by the federal government.

An agreement additional to the May 2005 commitment was concluded for other training and employment services for Ontarians. This Labour Market Development Agreement provides for a transfer of $582 million annually by 2007–08 in Employment Insurance funding currently spent by the federal government.

Together, the three landmark agreements covering immigration and labour-market services will bring $1.2 billion in annual funding by 2009–10. The Ontario Government is using these funds to help create a Jobs and Skills Renewal Strategy, building on Ontario's One-Stop Training and Employment System.

To achieve the goal of continued prosperity for the province, Ontario needs to work constructively with the federal government towards a principled and sustainable set of federal-provincial fiscal arrangements that will continue to narrow the fiscal gap. Upholding these recent agreements is a good first step towards addressing Ontario's concerns in these matters. However, increased federal funding will be necessary to implement the federal government's commitments to create a wait-time guarantee; to build and maintain a highly skilled and competitive workforce through investments in

postsecondary education; to improve Canada's national infrastructure; and for important initiatives.

Ontario is particularly encouraged by the new federal government's commitment to address the fiscal imbalance. Fiscal balance can only be realized when tax dollars raised by all levels of government are put to their most effective use in ensuring a sustainable health care system, top-notch education, and infrastructure systems and municipal services that meet the needs of the people and businesses that use them.

Fair Treatment

The people of Ontario expect fair treatment in all their dealings with the federal government. The new federal government must ensure that the cash in federal transfers such as the Canada Health Transfer (CHT) and Canada Social Transfer (CST) is provided on an equal per-capita basis. This is currently not the case and, in fact, too many federal programs and transfers are short-changing Ontarians. This is neither reasonable nor fair.

The McGuinty government is committed to a strong, prosperous Ontario in a strong, prosperous Canada. The Government of Ontario will always work to strengthen Canada, but also has an obligation to defend the interests of Ontarians. The gap between what Ontarians pay to the federal government and what they receive back must be narrowed in the interest of all Canadians.

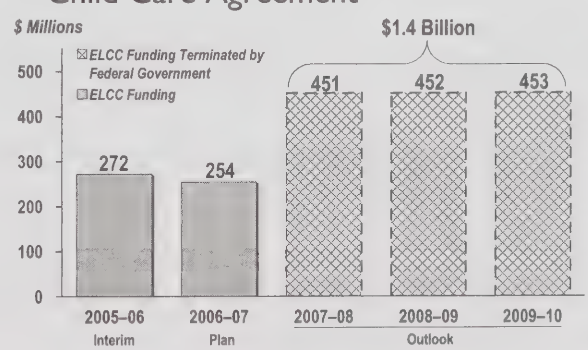
Federal measures to address the fiscal imbalance must benefit the residents of Ontario as much as they benefit the residents of other provinces.

Need for Greater Certainty in Federal Transfers

The importance of federal transfers in defining Ontario's overall fiscal picture also means that the Province is adversely affected when it experiences downward swings in those revenues. The inability to rely on federal transfers ultimately reduces the Province's long-term capacity to invest in Ontario and its people.

The unreliability of federal–provincial agreements also diminishes the Province's ability to make particular investments. Ontario will be acutely affected by this concern over the next two years. In 2006–07, the lapse in one-time health care federal transfers will mean that federal support for health care in Ontario will decrease by $74 million compared to 2005–06. Starting in 2007–08, another important program, the Canada–

Termination of 2005 Early Learning and Child Care Agreement



Source: Ontario Ministry of Finance.

Ontario Early Learning and Child Care (ELCC) Agreement, signed in November 2005, will be affected. Under its terms, Ontario would have received $1.9 billion over five years to support Best Start, Ontario's early learning and child care program for children under age six. Given the federal government's recent notice of the termination of this agreement, Ontario is no longer able to count on $1.4 billion in funding intended for child care spaces and fee subsidies for working families between 2007–08 and 2009–10, and, consequently, this amount has been excluded from the revenue forecast outlined in this Budget. This means that without sustained federal support, the Province cannot enhance and expand the child care system as originally planned.

Medium-Term Fiscal Outlook

Consistent with the medium-term fiscal plan originally outlined in the 2005 Budget, the deficit is projected at $2.4 billion in 2006–07, falling to $1.5 billion in 2007–08 and eliminated in 2008–09. If the reserve is not required in 2006–07, the deficit is projected to be $1.4 billion. The deficit will be eliminated a year earlier if the reserve is not required in 2007–08.

As required by the Fiscal Transparency and Accountability Act, 2004, the following table provides details of projected revenue and expense from 2005–06 through to the 2008–09 fiscal year. Further details are included in the Appendix, *Details of Ontario's Finances*.

Medium-Term Fiscal Plan And Outlook ($ Billions)

	Interim	Plan	Outlook	
	2005–06	**2006–07**	**2007–08**	**2008–09**
Total Revenue	**83.9**	**85.7**	**90.3**	**94.0**
Expense				
Programs				
Health Sector	33.5	35.4	37.3	38.8
Education Sector[1]	11.5	12.0	12.6	12.7
Postsecondary Education and Training Sector	4.7	5.2	5.9	6.0
Children's and Social Services Sector	10.1	10.3	10.5	10.6
Justice Sector	3.1	3.2	3.2	3.2
Other Programs	13.3	11.5	11.1	11.3
Total Programs	**76.2**	**77.7**	**80.6**	**82.6**
Interest on Debt	9.1	9.4	9.7	9.9
Total Expense	**85.3**	**87.1**	**90.3**	**92.5**
Surplus/(Deficit) Before Reserve	**(1.4)**	**(1.4)**	**0.0**	**1.5**
Reserve	–	1.0	1.5	1.5
Surplus/(Deficit)	**(1.4)**	**(2.4)**	**(1.5)**	**0.0**

1 Education sector includes Teachers' Pension Plan (TPP). Excluding TPP, total Education sector expense is projected at $11.2 billion in 2005–06, $11.6 billion in 2006–07, $12.1 billion in 2007–08 and $12.4 billion in 2008–09.

Note: Numbers may not add due to rounding.

Medium-Term Expense Outlook

The medium-term fiscal outlook reflects new investments announced in this Budget as well as those the government made in the 2004 and 2005 Budgets in health care, education, postsecondary education and training, Ontario's infrastructure and other priorities.

The medium-term expense outlook continues the government's commitment to keep the overall growth in spending better aligned with revenue growth. Over the medium term, total expense will rise from $87.1 billion in 2006–07 to $92.5 billion in 2008–09 — an increase of $5.4 billion. Annual growth in total expense is expected to average 3.0 per cent over this period, which is less than the 4.7 per cent average annual revenue growth forecast over the medium term.

Consolidating the Financial Results for Hospitals, School Boards and Colleges

Starting with this Budget, the government is expanding the scope of the Province's financial reporting to include the financial results of three important public-sector partners: Ontario's 155 hospitals (including three specialty psychiatric hospitals), 104 school boards and authorities, and 24 colleges of applied arts and technology. This adjustment is consistent with revised government accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and is fully supported by the Auditor General of Ontario. This expanded information will also be introduced to the Province's Public Accounts when they are published later this year.

By implementing this adjustment in the 2006 Budget, the government has advanced, by one full year, the commitment made in the 2004 and 2005 Budgets to expand the Province's financial reporting to include hospitals, school boards and colleges in the 2007 Budget. Implementing this change in this Budget will make it easier to compare the 2005–06 interim fiscal outlook with the upcoming 2005–06 Public Accounts.

In addition, along with including the financial results of these organizations in the Province's fiscal outlook, the budget presentation of expense has changed to provide details on a total expense basis, rather than differentiating between operating and capital expense. This change in presentation is consistent with PSAB accounting principles.

More details on the impact of consolidating hospitals, school boards and colleges and the changes to the budget presentation of expense can be found in the Appendix, *Details of Ontario's Finances*.

Details of Expense Outlook

When in a deficit position, such as the one the government inherited for 2003–04, getting back to a balanced budget and achieving a fiscally sustainable position requires that spending growth over the medium term be held to a rate below that of revenue growth. Current medium-term fiscal projections indicate that total spending will grow by 3.0 per cent per year on average between 2006–07 and 2008–09, lower than the 4.7 per cent average annual growth forecast for revenue.

- Total **health sector** spending, including the impact of consolidating the Province's 155 hospitals (including three specialty psychiatric hospitals), will grow by $1.9 billion in 2006–07, or 5.8 per cent, to $35.4 billion. Between 2005–06 and 2008–09, total health spending will increase by a total of $5.3 billion.
- Total **education sector** spending, including the impact of consolidating the Province's 104 school boards and authorities, will grow by $0.5 billion or 4.4 per cent, to $12.0 billion in 2006–07, increasing to $12.7 billion by 2008–09. Excluding Teachers' Pension Plan expense, education sector spending will grow by $0.4 billion, or 3.5 per cent, to $11.6 billion in 2006–07, increasing to $12.4 billion by 2008–09.
- Total **postsecondary education and training sector** spending, including the impact of consolidating the Province's 24 colleges of applied arts and technology, will grow by $0.5 billion, or 10.5 per cent, to $5.2 billion in 2006–07, increasing to $6.0 billion by 2008–09.
- **Children's and Social Services sector** funding will grow by $0.2 billion to $10.3 billion in 2006–07, rising to $10.6 billion by 2008–09.
- **Justice sector** spending will grow by $0.1 billion or 2.9 per cent to $3.2 billion in 2006–07 and remain at that level throughout the medium term. This level of spending in the Justice sector represents a $0.3 billion increase in 2008–09 compared to what was provided in the 2005 Budget.
- **Other Programs** spending in 2006–07 of $11.5 billion is down by $1.8 billion from $13.3 billion in 2005–06, mainly reflecting the one-time investments in the Province's economic infrastructure in 2005–06 outlined in this Budget, including the Move Ontario initiatives.
- **Interest on debt expense** is forecast to grow by $0.5 billion between 2006–07 and 2008–09, reflecting the government's deficit targets and interest rates that are forecast to increase from historically low levels. In 2006–07, interest on debt costs will amount to roughly 11 per cent of total Provincial revenue and remain there throughout the medium term. This represents an improvement over 2003–04, when interest on debt expense represented 14 per cent of total Provincial revenue.

Risks to Expense Outlook

Containing the rate of growth in the Province's medium-term expense plan is a key element of the Province's fiscal plan. However, a number of expense risks and cost drivers could affect the Province's fiscal performance over the medium term.

A key cost driver within the Province's expense outlook is the demand for programs and services that arises from changes in the economic outlook or other utilization pressures. These pressures are especially evident in the health and social services sectors. For example, a one per cent increase in Ontario Works and Ontario Disability Support Program caseloads would cost the Province an additional $40 million a year.

The demand for health care services presents particularly significant risks. In fact, between 2000–01 and 2005–06, Ontario's total health care spending increased at an average annual rate of 7.8 per cent. By contrast, Ontario's nominal GDP growth averaged 4.3 per cent annually, and total revenue growth averaged only 4.8 per cent annually during this period. In 2006–07, the government will invest an additional $1.9 billion in Ontario's health care system (including hospitals), for a total of $35.4 billion, representing an annual increase of 5.8 per cent over 2005–06, much higher than the 2.1 per cent growth projected for total Provincial revenue. With this increase, total health spending will amount to 46 per cent of total Provincial program expense in 2006–07. Over the period from 2003–04 to 2008–09, the Province's cumulative additional investment in health care will total $34.4 billion.

Sustained growth in health care spending at a rate that exceeds growth in revenue will crowd out available funding for other programs, services and investments, ultimately threatening the long-term economic growth potential of the province. While this Budget provides additional targeted investments in health care services, it continues the plan to lower the rate of growth in health care spending over the medium term.

Under the enhanced reporting introduced in this Budget to include the financial results of the Province's hospitals, school boards and colleges, any overspending or underspending to the net expense by these public-sector organizations will be disclosed in the Province's financial statements and impact its bottom line. This will now be transparent to the readers of the Province's financial reports by comparing the sectors' actual net expenses to those planned for the year. While this is not a new risk, the enhanced financial reporting better reflects this risk in Ontario's financial statements.

More details on potential risks, cost drivers and contingent liabilities are contained in the Appendix, *Details of Ontario's Finances.*

FISCAL PRUDENCE

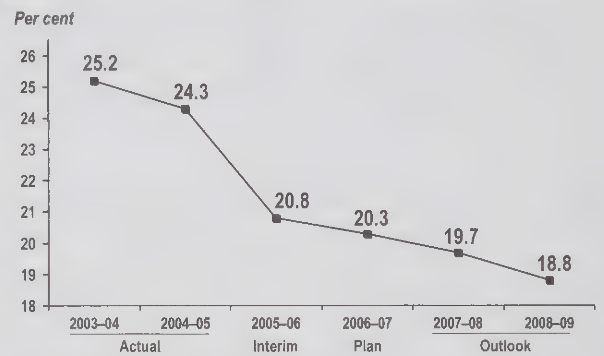
In addition to applying a disciplined approach to balancing strategic investments in key priority areas with a plan to eliminate the deficit, the government's medium-term fiscal plan includes prudence in recognition of the risks that could materialize as a result of changes in the economic outlook, Provincial revenues and expense, including expansion of the Province's financial reporting to include hospitals, schools and colleges.

The government's medium-term fiscal plan includes reserves of $1.0 billion in 2006–07 and $1.5 billion in 2007–08 and 2008–09 to protect the government's overall fiscal objectives and ensure the achievement of the fiscal targets outlined in this Budget. The 2007–08 and 2008–09 reserves are $0.5 billion higher than the $1.0 billion reserve included in 2006–07 to better reflect the risks and uncertain nature of medium-term fiscal projections.

MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

Another key component of the government's medium-term fiscal plan is the commitment to maintain a prudent level of Provincial debt relative to the size of Ontario's economy as measured by nominal GDP. Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges crowd out funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term to ensure that future generations are not burdened with a structural deficit.

Projected Debt-to-GDP Ratio[1]



[1] Debt is defined as accumulated deficit.
Source: Ontario Ministry of Finance.

Consistent with the Fiscal Transparency and Accountability Act, 2004, Provincial debt is defined as accumulated deficit, which is the sum of all past Provincial surpluses and deficits. The expansion of the Province's financial reporting to include hospitals, school boards and colleges also means that, beginning in 2005–06, any surpluses or deficits of these organizations, which are recorded as part of the Province's surplus/deficit, are now reflected in the Province's debt-to-GDP ratio.

Consistent with the medium-term fiscal outlook, the Province's debt-to-GDP ratio is projected to decline from 25.2 per cent in 2003–04 to 20.3 per cent in 2006–07 and 18.8 per cent by 2008–09. By achieving the 2008–09 target, the government will have reduced the Province's debt-to-GDP ratio to its lowest level in 17 years. The substantial decline in 2005–06 is primarily due to a one-time reduction of $14.1 billion to the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, reflecting the balance of the sectors' assets less their liabilities as at April 1, 2005.

Key Changes Since the 2005 Ontario Budget

The government's medium-term fiscal outlook has been updated to reflect changes since the 2005 Budget.

Taking into account the investments provided by this Budget and key changes in the revenue outlook, the 2005 Budget deficit targets remain unchanged and on track at $2.4 billion in 2006–07, falling to $1.5 billion in 2007–08, and a balanced budget in 2008–09. If the reserve is not required in 2006–07, the deficit is projected to fall to $1.4 billion. The budget will be balanced in 2007–08 if the reserve is not required in that year.

The following table provides an overview of the key changes to the medium-term revenue and expense outlooks, and the reserve since the release of the 2005 Budget.

Additional details on key changes to the 2005–06 fiscal outlook since the 2005 Budget are provided in Section V of this paper.

IMPACT OF KEY CHANGES TO THE MEDIUM-TERM DEFICIT TARGETS ($ BILLIONS)

	Plan	Outlook	
	2006–07	2007–08	2008–09
Surplus/(Deficit) as per 2005 Budget	**(2.4)**	**(1.5)**	**0.0**
Key Revenue Changes Since 2005 Budget:			
Higher 2005–06 Revenues	1.2	1.3	1.4
Economic Growth Outlook	(0.5)	(0.7)	(0.8)
Early Learning and Child Care Agreement	0.0	(0.5)	(0.5)
2005 Canada–Ontario Agreement and Labour Market Development Agreement	0.4	1.5	1.6
Electricity Sector-Related Revenues	(0.1)	0.1	0.1
Total Revenue Changes	0.9	1.8	1.7
Key Expense Changes Since 2005 Budget:			
Additional Health Care Investments	0.5	0.8	0.5
Investments in Labour-Market Training Programs	0.2	0.6	0.7
Investments for Safe Communities	0.2	0.2	0.3
Impact of Federal Support for Early Learning and Child Care Being Withdrawn	(0.2)	(0.4)	(0.4)
Increased Assistance for Children's and Social Services Sector	0.4	0.4	0.5
Obligations Related to Retirement Benefits	0.1	0.1	(0.1)
Other Expense Changes (Net), including Interest on Debt Savings	0.3	0.1	0.3
Total Expense Changes	1.4	1.8	1.7
Change in Reserve	(0.5)	–	–
Total Changes Since 2005 Budget	**0.0**	**0.0**	**0.0**
2006 Budget Surplus/(Deficit)	**(2.4)**	**(1.5)**	**0.0**
Reserve	1.0	1.5	1.5
2006 Budget Surplus/(Deficit) Before Reserve	**(1.4)**	**0.0**	**1.5**

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

Total projected revenues are higher throughout the medium term than projected in the 2005 Budget. Major changes include:

- **higher 2005–06 revenues** — largely Personal Income and Corporations Tax — result in a higher base upon which growth is applied, increasing the taxation revenue forecast for 2006–07 onwards. The increase in 2005–06 taxation revenues above projection was primarily due to higher revenues from processing 2004 tax returns and stronger 2005 economic growth;

- the current **economic growth forecast** — notably slower Ontario real GDP growth in each year from 2006 through 2008, has reduced the taxation revenue outlook from 2006–07 through 2008–09;
- Government of Canada transfers under the **Early Learning and Child Care Agreement** are no longer included in the revenue outlook for 2007–08 onwards due to the new federal government's notice of termination of the agreement;
- Government of Canada transfers consistent with the **2005 Canada–Ontario Agreement** and the **Labour Market Development Agreement** increase the revenue outlook from 2006–07 to 2008–09; and
- revenues from **the electricity sector** are lower in 2006–07, largely reflecting the government's strategic decision to improve electricity price stability for Ontario consumers by extending for three years and initially reducing the transitional revenue limit on most of OPG's unregulated output. In 2007–08 and 2008–09, electricity sector revenue is slightly higher, reflecting a revised forecast of the electricity market.

Major changes to the medium-term expense outlook since the 2005 Budget include:

- total **health care sector spending** will be $0.5 billion higher in 2006–07, $0.8 billion higher in 2007-08 and $0.5 billion higher in 2008-09, compared to what was projected at the time of the 2005 Budget. These additional investments will be used to invest in key health care services;
- additional funding of $0.7 billion in 2008–09 will be provided for the **postsecondary education and training** sector mainly to expand and enhance apprenticeships, labour-market integration of recent immigrants, literacy and basic skills, workplace skills development, and services for Aboriginal Peoples and others facing labour-market barriers. These investments largely reflect federal funding provided under the Labour Market Partnership Agreement and the Labour Market Development Agreement;
- the government will provide an additional $0.3 billion in 2008–09 to the **justice sector** to ensure Ontario's communities are safer through investments in key priorities such as the Enhanced Anti-Gun and Gang Violence Strategy;
- Ontario will use the last federal payment in 2006–07 from the **Early Learning and Child Care (ELCC) Agreement** to support the child care system. Under the terms of the agreement, Ontario was to receive $1.9 billion over five years to support early learning and child care programming for children under the age of six. Ontario will now need to lower planned additional Provincial spending on child care by $0.2 billion in 2006–07 and by $0.4 billion in 2007–08 and 2008–09;
- this Budget also supports Ontario's **most vulnerable** included in the children's and social services sector by providing an additional $0.4 billion in 2006–07, growing to $0.5 billion in 2008–09, compared to what was provided at the time of the 2005 Budget, mainly to provide additional funding for developmental services, permanently flow through the July 2004, 2005 and 2006 increases in the National Child

Benefit Supplement to social assistance recipients, and increase social assistance benefits by two per cent;

- an increase in expense of $0.1 billion in 2006–07 and 2007–08 for obligations related to **retirement benefits** for the Ontario Public Service and the Teachers' Pension Plan resulting from revised estimates of expense based on updated actuarial information; and
- **other expense** will rise by $0.3 billion in 2006–07, $0.1 billion in 2007–08 and $0.3 billion in 2008–09, including the impact of **lower interest on debt costs** arising from continued cost-effective debt management and lower interest rates than were forecast at the time of the 2005 Budget.

Consistent with past practice, the reserve has been reduced to $1.0 billion in 2006–07 to reflect the upcoming Budget Plan year, and is maintained at $1.5 billion in 2007–08 and 2008–09.

Section IV: Modernizing Government Update

Responsible management of the Province's finances also means that the government is focused on priorities and achieving results that matter most to people in a way that ensures Ontarians receive excellent value for their tax dollars.

Consistent with that approach, the government is constantly looking for ways to modernize and improve programs and services. The more effective government is in how it delivers programs and services, the more resources government can devote to fund the services that matter to people.

The government's modernization plan is designed to achieve three objectives:

- **make progress on program review savings targets** — achieving savings of $750 million in 2007–08 from more cost-effective programs;
- **create more efficient government** — providing higher-quality services that are delivered in an efficient and effective manner; and
- **control long-term costs** — meeting growing public demand for improved health care, education and other key services at an affordable cost that is fiscally sustainable in the long run.

Making Progress on Program Review

The 2004 and 2005 Budgets reported that the government was undertaking a comprehensive review to ensure that key programs and services were being delivered in the most cost-effective way possible and to secure their long-term viability.

Improved cost-effectiveness is primarily materializing in administrative and back-office services such as business support services, accommodations and information technology.

Since the 2005 Budget, the government has been working to ensure that the modernization initiatives already identified are moving forward in an efficient and timely fashion. Some examples include:

- ministry accommodation costs are being reduced by better aligning real estate needs and retrofitting government buildings so they use less energy;
- a more streamlined purchasing process, vendor rebates and new vendors of record are decreasing procurement costs;
- changes in the application of information technology services and products are generating savings. In particular, initiatives are underway to consolidate desktop management and rationalize common services and applications across the Ontario Public Service;

- lower general and automobile insurance rates are being negotiated for government vehicles, resulting in savings;
- inbound toll-free and outbound long-distance telephone costs are being reduced; and
- improving the collection of the government's accounts receivable and increasing the use of electronic funds transfers are generating savings and are resulting in more efficient management of government revenues.

As program review is a key element of the government's fiscal plan, work will continue throughout 2006–07 to identify additional sources of cost-effectiveness.

Delivering Efficient Government

Better harmonization and coordination of government operations lead to more efficient delivery of key programs and services. A realigned ministry structure announced by the Premier on June 29, 2005 has served to eliminate inefficiencies, while allowing more specific focus to be given to key priority areas and the delivery of results:

- a new **Ministry of Government Services**, which combines elements of the former Management Board Secretariat and the former Ministry of Consumer and Business Services, is responsible for modernizing front-line services through ServiceOntario, ensuring Ontarians can access business and consumer services through a single window. The government will introduce legislation to allow the Registrar of Vital Statistics to provide enhanced access to death-notice information while ensuring the protection of privacy;
- in November 2005, the government announced its intention to introduce legislation that, if passed, would give **Infrastructure Ontario** responsibility for overseeing the Ontario Strategic Infrastructure Financing Authority (OSIFA), ensuring that the government's infrastructure financing activities take place in a coordinated and consistent manner; and
- a **central agency review** has yielded results regarding the way Cabinet and the decision-making process is organized, including the creation of a new Treasury Board Office within the Ministry of Finance that will ensure better coordination in supporting sound and timely decision-making.

Greater coordination and harmonization have also been encouraged through a number of important new federal–provincial partnerships. For example, in 2005, Ontario signed a new Tax Collection Agreement (TCA) with the federal government for the continued administration of Ontario personal income tax. This new TCA contains provisions for enhanced collaboration between the Auditors General of Ontario and Canada in reviewing personal income tax administration. The Ontario Government is working with other provinces to develop approaches to exercise the new provisions contained in the

TCAs that allow provinces to review administration of provincial income tax by the Canada Revenue Agency.

It is also expected that Ontario and the federal government will conclude a TCA on corporate income tax administration, thereby implementing a federally administered system for collecting Ontario's corporate income tax.

Ongoing collaboration with the federal government is critical to ensuring that together the Province and the federal government can achieve results in improving services to Ontarians.

Controlling Long-Term Costs

OntarioBuys is an excellent example of how the government is working with broader public-sector (BPS) partners to manage the rate of growth in spending, while also improving their respective service levels.

OntarioBuys was created to facilitate and accelerate the implementation of integrated supply-chain leading practices by the BPS. During 2005–06, OntarioBuys funded 20 initiatives involving over 100 hospitals, schools, colleges, universities and social service agencies, which will reduce supply-chain costs, streamline back-office functions and improve front-line services. Once fully implemented, the resulting savings will be available for front-line services. For example, physicians will have better access to information about their surgical supplies, floor staff will be able to more easily reorder patient care supplies, and hospital managers will have more complete and timely information about operating cost trends relative to volume levels.

In the education and postsecondary sectors, OntarioBuys is funding the development of the Ontario Education Cooperative Marketplace (OECM). Each year, Ontario's schools, colleges and universities spend over $2 billion on goods and services. A number of these institutions are now working to complete project planning and launch OECM so that Ontario's educational institutions can start seeing the benefits for the fall 2007 school term.

Section V: Ontario's Interim Fiscal Performance for 2005–06

The government continues to make significant progress in eliminating the deficit — cutting it by more than two-thirds from the $5.5 billion level inherited in 2003–04 to $1.6 billion in 2004–05. The 2005 Budget Plan projected a deficit of $2.8 billion for 2005–06.

This Budget, while including strategic investments in infrastructure and other key priority areas, is projecting an interim deficit of $1,369 million for 2005–06, an in-year improvement of $1,427 million from the deficit projected in the 2005 Budget.

2005–06 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	81,687	83,939	2,252
Expense			
Programs	73,687	76,218	2,531
Interest on Debt	9,796	9,090	(706)
Total Expense	83,483	85,308	1,825
Surplus/(Deficit) Before Reserve	**(1,796)**	**(1,369)**	**427**
Reserve	1,000	–	(1,000)
Surplus/(Deficit)	**(2,796)**	**(1,369)**	**1,427**

Source: Ontario Ministry of Finance.

Total revenues in 2005–06 are projected to be $83,939 million, a 2.8 per cent improvement over the 2005 Budget projection. The economic outlook for 2005 was stronger than projected in the 2005 Budget, resulting in higher taxation revenue. In addition, since the 2005 Budget, new information from processing 2004 Personal Income Tax and Corporations Tax returns has increased associated 2004–05 revenues above the estimates in the 2005 Budget and 2004–05 Public Accounts. Higher revenues in 2004–05 than estimated in the 2005 Budget increase the base upon which growth is applied in estimating revenues for 2005–06 and beyond. As well, under Public Sector Accounting Board (PSAB) rules, higher revenues in 2004–05 than estimated in the 2004–05 Public Accounts are reflected as a one-time positive adjustment in 2005–06. Higher electricity sector-related revenues, primarily due to higher prices and stronger demand, also boosted revenues in 2005–06.

Total expense is projected to increase to $85,308 million, up a net $1,825 million from the 2005 Budget Plan. Most of this increase in spending reflects a strategic choice to invest in public transit, roads and bridges, and innovation, to promote a new generation of

economic growth, and to provide support for the agriculture and forestry sectors. It also reflects $706 million in interest on debt savings.

Excluding major one-time investments of $2.1 billion announced in this Budget for transportation, research and innovation, and sector support as a result of better-than-expected revenues and lower interest on debt expense, the underlying growth in spending for 2005–06 is 4.8 per cent.

The government is making these strategic investments while also improving upon the 2005–06 deficit target originally set out in the 2005 Budget.

The $1.0 billion reserve, included in the 2005–06 Budget Plan to protect against unexpected and adverse changes in the economic and fiscal outlook, was not required.

The 2005–06 interim results reported in this Budget are based on the best information available as of early March 2006. Given the preliminary nature of these estimates, these interim projections are subject to year-end closing procedures and audit, which will be reflected in the 2005–06 Public Accounts.

In-Year Revenue Performance

Total revenue in 2005–06 is currently projected to be $83,939 million, an increase of $2,252 million from the 2005–06 Budget Plan, primarily due to higher taxation revenues from 2004 tax return processing, stronger economic growth and higher revenues from the electricity sector.

Roughly $1,100 million of the 2005–06 revenue increase above forecast does not carry forward into the forecast. This includes amounts related to the electricity sector and one-time positive adjustments in respect of past Public Accounts revenue underestimates described below.

SUMMARY OF IN-YEAR CHANGES TO REVENUE IN 2005–06 ($ MILLIONS)

		Interim 2005–06
Taxation Revenue		
Personal Income Tax	1,002	
Corporations Tax	481	
Employer Health Tax	172	
Land Transfer Tax	85	
Electricity Payments-in-Lieu of Taxes	284	
All Other Taxes Combined	(10)	
		2,014
Government of Canada		47
Income from Government Enterprises		
Ontario Power Generation Inc. and Hydro One Inc.	203	
All Other Government Enterprises Combined	(12)	
		191
Other Non-Tax Revenue		–
Total Revenue Changes		**2,252**

Source: Ontario Ministry of Finance.

Revenue Changes

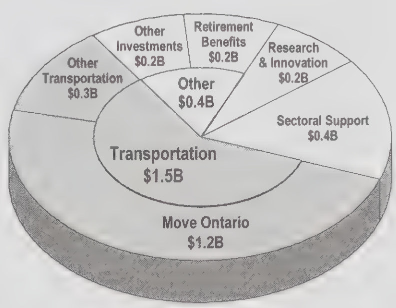
- **Personal Income Tax** revenues are estimated to be $1,002 million above the 2005 Budget forecast. Stronger-than-forecast 2005 wages and salaries growth contributed to higher Personal Income Tax revenues. Also, since the 2005 Budget, new information from processing 2004 Personal Income Tax returns increased 2004–05 revenues above the estimates in the 2005 Budget and 2004–05 Public Accounts. Higher revenues in 2004–05 than estimated in the 2005 Budget increase the base upon which growth is applied in estimating Personal Income Tax revenues for 2005–06 and beyond. As well, higher revenues of $437 million than estimated in the 2004–05 Public Accounts are reflected as a one-time positive adjustment in 2005–06.
- **Corporations Tax** revenues are estimated to be $481 million above the 2005 Budget forecast, largely due to higher revenues from processing 2004–05 tax returns. Stronger 2005 corporate profit growth also contributed to higher Corporations Tax revenues.
- **Employer Health Tax** revenues are estimated to be $172 million above the 2005 Budget forecast, primarily due to stronger 2005 wages and salaries growth and prudence included in the 2005 Budget forecast.
- **Land Transfer Tax** revenues are estimated to be $85 million above the 2005 Budget forecast, mainly due to higher housing resale values in 2005.

- **Electricity Payments-in-Lieu of Taxes** are estimated to be $284 million above the 2005 Budget forecast due to the combined improved financial performance of Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One) and municipal electric utilities.
- The net change in all **other taxation** revenues combined is estimated at $10 million below the 2005 Budget forecast.
- **Government of Canada Transfers** are $47 million above the 2005 Budget forecast. This is largely due to increased transfers in a few areas, including Canada Health and Social Transfers, Indian Welfare Services, and Social Housing.
- Net income for **Government Business Enterprises** was $191 million above the 2005 Budget forecast, largely due to higher combined net incomes of Hydro One and OPG—primarily due to higher electricity prices, improved business performance and stronger demand.
- **Other Non-Tax Revenue** is on track with the 2005 Budget forecast.

In-Year Expense Performance

Total expense in 2005–06 is currently projected to be $85,308 million, an increase of $1,825 million from the 2005 Budget Plan, primarily due to one-time investments in the Province's economic infrastructure, including Move Ontario, partially offset by interest on debt savings of $706 million.

Composition of In-Year Program Expense Performance



Summary of In-Year Expense Changes in 2005–06 ($ Millions)

		Interim 2005–06
Program Expense Changes:		
Transportation:		
Move Ontario — priority transit projects in the Greater Toronto Area[1]	832	
Move Ontario — municipal roads and bridges	400	
Municipal assistance to Toronto for subway operations	200	
Municipal support for new buses and bus refurbishments	114	
		1,546
Sectoral Support:		
Grain, oilseed and horticulture producers, and livestock industry	125	
Stelco assistance	114	
Forest firefighting	64	
Support for cultural agencies[2]	37	
Forest sector strategy	28	
Community cultural projects	24	
		392
Research and Innovation:		
Research and Innovation initiatives	162	
Animal Health Laboratory at the Ontario Veterinary College in Guelph	25	
		187
Other Initiatives:		
Retirement benefits	222	
Strategic infrastructure investments	60	
All other (net) program expense changes	124	
		406
Total Program Expense Changes		2,531
Interest on Debt Savings		(706)
Total In-Year Expense Changes		1,825

1 Total priority transit projects in the Greater Toronto Area as part of Move Ontario are $838 million, of which $6 million is planned for in 2006–07.

2 The gross expenditure is $49 million; however, $12 million of that will be amortized, resulting in a $37 million expense in 2005–06.

Sources: Ontario Ministry of Finance and Ontario Ministry of Infrastructure Renewal.

Expense Changes

Total expense increased by $1,825 million in-year from the 2005 Budget forecast. This is due to an increase in program expense of $2,531 million, offset by $706 million in interest on debt savings.

Highlights of key in-year transportation expense changes include:

- funding priority **transit projects** in the Greater Toronto Area (GTA), with an in-year investment of $832 million in 2005–06 through the Ministry of Transportation;
- an additional $400 million in one-time funding to the Ministry of Transportation to assist municipalities primarily outside the GTA with **road** and **bridge** construction and maintenance projects;
- an additional $200 million in one-time funding to the Ministry of Transportation to assist the **City of Toronto** with subway operations; and
- an additional $114 million was provided in-year to the Ministry of Transportation to assist municipalities that have placed orders for **new buses and bus refurbishments** pending the development of a new municipal bus replacement program.

Highlights of key in-year sectoral support increases include:

- support for Ontario's **grain, oilseed and horticulture producers** and the **livestock industry** through the Ministry of Agriculture, Food and Rural Affairs required an in-year investment of $125 million;
- a $114 million increase in the Ministry of Finance to account for the forgivable portion of a $150 million **loan provided to Stelco Inc.** to assist with the company's restructuring plan;
- an additional $64 million was provided to the Ministry of Natural Resources in-year for higher-than-anticipated **forest firefighting costs** last summer;
- a $37 million net increase to support Ontario's major **cultural agencies** and attractions. The Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art will all receive funding to help them realize their full economic potential as premier tourist attractions. An additional $12 million in gross expenditure is being provided to the Royal Ontario Museum, but as it is part of the government's reporting entity, it will be depreciated with no fiscal impact in 2005–06;
- an in-year increase of $28 million was provided to the Ministry of Natural Resources for the maintenance of primary forest access roads, as part of the Province's **Forest Sector Strategy**; and
- an in-year increase of $24 million to the Ministry of Culture was provided mainly to support various **community cultural projects** in the City of Ottawa and to help the Ontario Heritage Trust identify, preserve and protect Ontario's heritage.

Highlights of key in-year research and innovation expense changes include:

- increased in-year investments for various research and innovation initiatives, such as the **Perimeter Institute for Theoretical Physics** and the **Institute for Quantum Computing**, will total $162 million in 2005–06; and
- an additional $25 million was provided in-year to the Ministry of Agriculture, Food and Rural Affairs for the **Animal Health Laboratory at the Ontario Veterinary College in Guelph**. This funding will provide the laboratory with increased capability to deal with diseases that threaten animal and human health, such as avian influenza.

Highlights of other key expense changes include:

- **retirement benefits** expense increased in-year by $222 million for benefits payable in future years, as a result of changes to various retiree supplemental health benefits;
- **strategic infrastructure investments** by the Ministry of Agriculture, Food and Rural Affairs totalling $60 million to meet previous commitments, including $35 million for wastewater and other municipal projects in Hamilton, and $25 million for wastewater treatment upgrades in Kingston; and
- **net other in-year program expense** changes amount to $124 million. This increase is mainly due to additional funding for First Nations and public libraries, and an additional provision for Land Ambulance support.

In-year savings of $706 million in **interest on debt costs** were realized as a result of cost-effective debt management and lower-than-forecast long-term interest rates.

Conclusion

This Budget confirms the government's investments in education, skills, health and infrastructure, and its commitment to responsible and prudent fiscal management. It also confirms that the government is on track to meet the deficit targets outlined in the 2005 Budget and to balance the budget no later than 2008–09.

The government is on track to achieve its fiscal targets despite the fact that the projected growth for Ontario's economy in 2006 is moderate, and risks from global economic changes pose a challenge over the medium term. The impact of slower economic growth on the Province's revenue means that the Province must continue to be prudent and disciplined in order to meet its medium-term fiscal targets.

More details on Ontario's fiscal plan and outlook are provided in the Appendix, *Details of Ontario's Finances.*

PAPER A: Appendix

Details of Ontario's Finances

Introduction

Paper A, *Building Opportunity, Building a Stronger Ontario*, provided an overview of the Province's key priorities, economic outlook, medium-term fiscal plan and an update on the government's progress on managing change and delivering results.

This appendix provides details on Ontario's recent fiscal performance and other financial information, specifically:

- **Section I**: Fiscal Transparency and Accountability;
- **Section II**: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities;
- **Section III**: Support for Investments for Healthier Ontarians;
- **Section IV:** Potential Risks, Cost Drivers and Contingent Liabilities; and
- **Section V**: Fiscal Tables and Graphs.

Section I: Fiscal Transparency and Accountability

The government is committed to enhancing transparency and accountability. It has taken a number of key actions in this area.

Enhancements in Transparency and Accountability

- ☐ The Fiscal Transparency and Accountability Act (FTAA) has set new standards for how the Province plans to allocate resources, and how and when it presents financial reports to the people of Ontario.
- ☐ In October 2005, the government issued the first-ever long-range assessment of Ontario's fiscal and economic environment, *Toward 2025: Assessing Ontario's Long-Term Outlook.*
- ☐ For the first time, the Ontario Government will produce a pre-election fiscal report, which will be reviewed by the Auditor General.
- ☐ The government has expanded the Auditor General's authority to carry out value-for-money audits of organizations receiving government funds to deliver front-line services.
- ☐ The government has begun consultations on a new Public Service Act. This initiative seeks to embed in legislation the fundamental principles of public service: accountability, merit, non-partisanship and professionalism, and to provide a strong ethical framework for public servants.

Consolidating Hospitals, School Boards and Colleges into the Province's Financial Results

In this Budget, the government is implementing another major change in the way that the finances of the Province are reported to the public. For the first time, the Province's financial reporting in the Budget includes the financial results of three important public-sector partners — hospitals, school boards and colleges of applied arts and technology. Consistent with revised government accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), the government will also introduce this expanded information into the Province's Public Accounts when they are published later this year.

The Auditor General of Ontario fully supports the inclusion of hospitals, school boards and colleges in this 2006 Budget:

"...We support the inclusion of these broader public sector entities in the summary financial statements of the Province.... In my opinion, inclusion of colleges, school boards and hospitals in the 2006 Budget will facilitate the comparison of actual results to budgeted results which is an essential ingredient of fiscal public accountability."

Letter from the Auditor General of Ontario dated March 9, 2006.

The government first announced in the 2004 Budget that it would include hospitals, school boards and colleges in the Province's financial statements on a "one-line" basis starting with the 2005–06 Public Accounts and the subsequent (2007) Budget. By including these entities in the 2006 Budget, the government has advanced that timing by one year, making it easier to compare the 2006 Budget with the 2005–06 Public Accounts published later this year.

The government is also taking a major step towards improving the timeliness of the Province's financial reporting by tabling its 2006 Budget in advance of the start of the 2006–07 fiscal year. Earlier budgets and medium-term outlooks provide our transfer partners with more certainty to facilitate their own planning. The government also plans to advance the date of tabling the 2005–06 Annual Report and Consolidated Financial Statements this year. By providing more comprehensive, comparable and timely financial reporting, the government is further enhancing transparency and accountability.

What Does Consolidating Hospital, School Board and College Spending Involve?

The addition of hospitals, school boards and colleges to the Province's books recognizes that these sectors receive most of their funding from the taxpayers of Ontario.

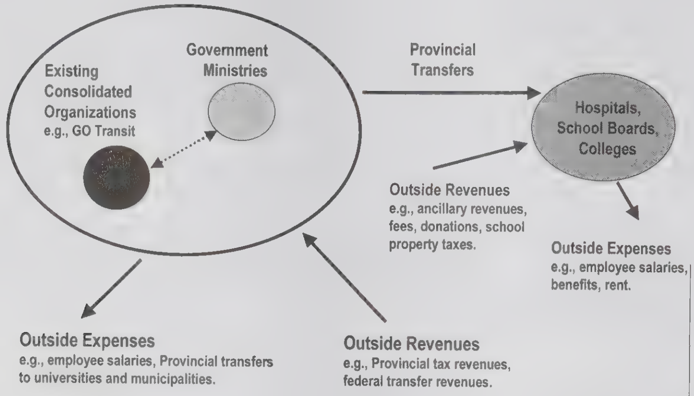
In order to include the financial results of the hospital, school board and college sectors, the government has changed the definition of the Province's expenses in this Budget in accordance with PSAB standards.

- Previously, the Budget recorded the Province's operating and capital grants to these sectors as expenses. Starting with the 2006 Budget, the government is replacing that approach by including the net expenses of these three sectors in its provincial expenses.
- This is being done to reflect fully the portion of the sectors' expenses that provincial taxpayers are responsible for supporting.
- Net expenses are calculated as the operating costs and depreciation of the sectors' assets less any revenues they receive from sources other than the Province. Another way of looking at it is that net expenses represent the total provincial operating and capital grants being provided to the sectors plus or minus their deficits or surpluses.

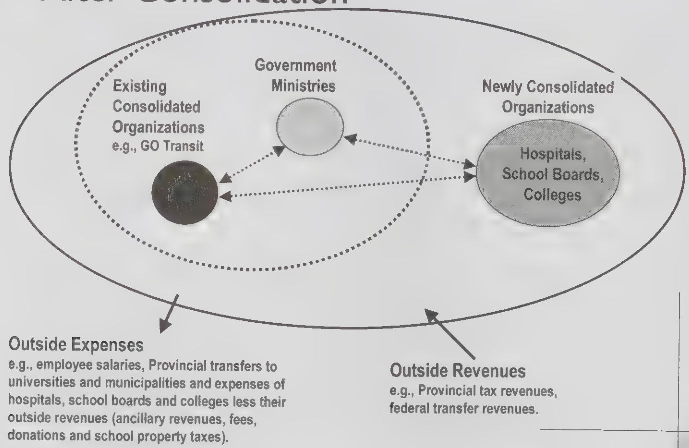
The Province depreciates its capital assets over the years they provide service to the public. Because hospital, school board and college sectors are now part of the Province's reporting entity, the capital funding that the Province provides to these sectors will also now be depreciated over the service lives of their assets instead of being treated as a capital grant expense in the year paid.

These accounting changes do not affect the government's funding for these sectors. Likewise, these changes do not affect the governance of these sectors nor the sectors' ownership of assets.

Financial Reporting — Before Consolidation



Financial Reporting — After Consolidation



Implications of Consolidating Hospitals, School Boards and Colleges on the Province's Financial Presentation

The PSAB standards provide the criteria for determining whether organizations should be included in the government's financial statements.

Public Sector Accounting Board Standards

- ☐ The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) is the independent accounting authority setting accounting and financial reporting standards for governments in Canada. The Province adheres to these standards.
- ☐ In August 2003, PSAB issued a new accounting standard that established criteria for determining which public-sector organizations should be included in a government's financial statements, starting with the 2005–06 Public Accounts.
- ☐ In his 2003 Annual Report, the Auditor General of Ontario noted that, in accordance with this new PSAB standard, Ontario's school boards and colleges may warrant inclusion in the Province's financial statements but universities should not be included. It was also recommended that the government complete its own assessment to determine whether health care organizations should be included. The Province's assessment concluded that, consistent with most other provincial jurisdictions in Canada, hospitals, school boards and colleges should be included in the government's financial statements.

Prior to the 2006 Budget, the government's financial statements included government ministries, government organizations (e.g., GO Transit and Ontario Place) and government business enterprises (e.g., Liquor Control Board of Ontario (LCBO) and Hydro One). With this Budget, the Province's financial statements have been expanded to include the 155 public hospitals including three specialty psychiatric hospitals, 104 school boards and school authorities, and 24 colleges in the province.

With the inclusion of hospital, school board and college sectors in the Province's financial statements, the financial statement presentation in this Budget has changed:

- to highlight that the spending of these sectors is being supported by Provincial revenues, the net expenses of hospital, school board and college sectors are presented on separate lines. Previous budgets included the grants to these sectors as part of the relevant ministry's program and capital spending;
- as most of the Province's capital spending is now being accounted for as capital investments and depreciated over the years that the investments are providing service to the public, the financial presentation of capital has also changed:
  - ☐ as depreciation is an ongoing annual expense, the capital expense table has been combined with the operating expense table into a total expenses table, consistent with the presentation in the Province's Public Accounts;
  - ☐ the schedule of net investment in capital assets table has been removed;

- ☐ the gross capital investment table has been restructured into an infrastructure expenditures table; and

- the assets of these sectors, less their liabilities, are recorded on the Province's balance sheet, reducing its accumulated deficit.

Implications for Transparency and Accountability

Enhanced financial reporting makes it easier for Ontarians to see how their tax dollars are being spent. In prior years, if a broader public-sector organization such as a hospital or school board spent more or less than the total grants and non-Provincial revenue it received, this overspending or underspending was not recorded in the government's financial reports. Only if the government provided grants to the organization to cover deficits was it shown as a provincial expense.

Under the enhanced financial reporting, any sector overspending or underspending compared to their planned net expense will be disclosed in the Province's financial statements and impact its bottom line. As such, the financial performance of the sectors and its impact on the Province's finances will now be transparent to the readers of the Province's financial reports by comparing the sectors' actual net expenses to those planned for the year.

With this revised accounting, if the hospital, school board or college sectors' spending results in a higher or lower net expense than what was planned, this will now affect the Province's fiscal results and will create a risk that the Province will not achieve its targets. While this is not a new risk, the enhanced financial reporting better reflects this risk in Ontario's financial statements.

Impact of Consolidating Hospitals, School Boards and Colleges

The basic impact of consolidation is that the deficits/surpluses of the hospital, school board and college sectors are added to/subtracted from the provincial grant expenses. The deficits/surpluses of the sectors are composed of:

- deficits/surpluses resulting from their operating activities (i.e., operating revenues less operating expenses); and
- deficits/surpluses resulting from their capital activities (i.e., capital revenues less amortization of capital).

This impact is estimated to be a $32 million increase in expense in 2005–06 and a $104 million decrease in expense in 2006–07. The following table shows detailed impact by sector of the consolidation on the Province's expenses for 2005–06 and 2006–07.

Impact of Consolidation
($ Millions)

	2005–06 Interim			2006–07 Plan		
	Operating and Capital Grants	Sector Deficit/ (Surplus)[1]	Sector Net Expense	Operating and Capital Grants	Sector Deficit/ (Surplus)[1]	Sector Net Expense
Hospitals	13,979	82	14,061	14,733	(20)	14,713
School Boards	10,758	–	10,758	11,228	(46)	11,182
Colleges	1,308	(50)	1,258	1,397	(38)	1,359
		32			(104)	

1 Includes impact of depreciation of capital and consolidation accounting adjustments.

In calculating the surpluses and deficits of the sectors, adjustments are made to their financial results before including them in the Province's financial statements to eliminate double-counting and to make sure that they are consistent with the government's accounting practices. These adjustments are in accordance with PSAB standards.

Consolidation Accounting Adjustments

Adjustments to Avoid Double-Counting:

Year-End Cut-Off Differences

- The Province may record an expense as payable in one fiscal year, but a sector organization does not record the receivable as revenue until the following year. The net expenses of the sector would be adjusted to record the revenue in the same year it is received from the Province.

Non-Reciprocal Accounting Treatments

- The Province provides funding for capital investment purposes. While the Province accounts for this funding as an expense in the year that it is transferred to the organization, the colleges and hospitals do not record the transfers as revenues in the year received but amortize them over future years. The net expenses of these sectors are adjusted to record this revenue in the year it is received to reflect the amortization of capital investments over the years that they provide service to the public.

Accounting Consistency Adjustments:

Fiscal Year-End Differences

- School boards have an August 31 year-end, whereas the Province has a March 31 fiscal year-end. The school boards' net expenses are adjusted to the Province's fiscal-year basis.

Accounting for School Boards' Capital Assets

- Under their present accounting practices, school boards do not record capital assets in their financial statements. However, the Province and other sectors do record capital assets in their books. Therefore, the net expenses of school boards are adjusted upon consolidation to record their capital assets and the depreciation of these assets.

SIMPLIFIED EXAMPLE OF A CONSOLIDATION

Assumptions:

- ☐ The Province provides an organization with $50 million in operating grants and $20 million in capital grants for the year. Total provincial grants are $70 million.
- ☐ The organization includes $70 million from provincial grants in revenue and $10 million in third-party donations (outside revenues) in revenues, for total revenues of $80 million.
- ☐ The organization reports $70 million in operating expenses and $15 million in expenses for depreciation of its capital assets, for total expenses of $85 million.
- ☐ The organization has a deficit of $5 million resulting from expenses of $85 million less total revenues of $80 million.

Pre-Consolidation Expenses Budgeted in Prior Years

The provincial budget on a pre-consolidated basis included operating grants of $50 million and capital grants of $20 million, for a total of $70 million in expense for the year.

Post-Consolidation Expenses Budgeted Starting with the 2006 Budget

The consolidated 2006 Budget excludes the $50 million in operating grants and the $20 million in capital grants from the ministry's program expenses. Instead, the Budget includes the net expenses of $75 million ($85 million in expenses less $10 million in outside revenues) on a separate line. Another way of looking at it is that net expenses equals provincial grants of $70 million plus the organization's deficit of $5 million.

Impact of the Consolidation

In this example, the Province's expense increased by $5 million. This increase is composed of:

- ☐ the organization's operating deficit of $10 million (the organization's operating expenses of $70 million less their operating revenue of $60 million), reduced by:
- ☐ the capital impact of $5 million that results from the change in accounting from capital grant expense of $20 million to the organization's depreciation expense of $15 million.

The following table illustrates these results.

IMPACT OF CONSOLIDATION ($ MILLIONS)

Pre-Consolidation				Post-Consolidation	Expense Impact Increase/(Decrease)
	Organization's Books		Province's Books	Province's Books	Province's Books
	Revenues	Expenses	Expenses	Expenses	
Capital	20	15	20	15	**(5)**
Operating	50	70	50	70	20
Outside Revenue	10	–	–	(10)	(10)
Net Operating	60	70	50	60	**10**
Total	80	85	70	75	5
		Deficit 5	**Grant Expenses 70**	**Net Expenses 75**	**5**

Changes in Financial Presentation

The following table summarizes how the adjustments described previously will affect the expenses presented in Table A4 of the 2006 Budget and how it compares to the expense tables in previous budgets.

In the following table, the first column reports the 2006–07 operating information in the format that it would have been reported in Table A4 in the 2005 Budget. The second column reports 2006–07 capital information as it would have been shown in Table A5 in the 2005 Budget. The fourth column shows the adjustments reflecting the consolidation of hospitals, school boards and colleges into the Province's financial statements. The fifth column sums all of this information into a total line, which is the amount reported in Table A4 of this Budget.

In other words, Table A4 of this Budget captures the information that was presented in the operating and capital expense tables in prior years, adjusted for the consolidation of hospitals, school boards and colleges. This revised presentation is now consistent with Schedule 3 in the Province's Public Accounts.

Since most of the Province's capital spending is now being accounted for as investments in capital assets and depreciated or charged to annual expense over the years that these assets provide service to the public, the capital investment tables presented in previous years have also been revised in the Budget.

The table on the Gross Capital Investment (Table A7 in the 2005 Budget) has been restructured into the table on Infrastructure Expenditures — Table A5 in this Budget. The "Total Infrastructure Expenditures" column (column four) in the revised table contains the capital expenditures on the Province's tangible capital assets, and grants for capital purposes to public-sector entities that have been provided in the Gross Capital Investment Table in previous budgets. In addition, this column, for the first time, reflects grants to school boards and long-term care homes to service the financing of their capital assets. In the 2005 Budget, grants to school boards and long-term care homes were part of the operating expenses.

Furthermore, the "Total Infrastructure Expenditures" column in Table A5 is divided into two major categories (presented in columns two and three of the Infrastructure Expenditures table):

- those infrastructure expenditures, in the second column, that are invested in capital assets and amortized to the Province's annual expenses over future years. These expenditures are not included in the current-year expenses. Instead, only the amortized portion related to the current year is included in 2006–07 expenses reported in Table A4; and
- those infrastructure expenditures, in the third column, as adjusted for consolidation, that are included in the Province's current-year expenses in Table A4.

Consistent with the revised Total Expense Table (Table A4 in this Budget), the new Table A5 also identifies separately hospital infrastructure expenditures from other health expenditures and breaks out the school board and college sector expenditures from the other education expenditures on universities.

The interim 2005–06 results (column one) in the Infrastructure Expenditure Table is the Gross Capital Investment Table presented in the 2005 Budget, restated and updated in order to compare 2005–06 interim results with the 2006–07 plan.

Lastly, with the introduction of the new Infrastructure Expenditures Table A5, the Schedule of Net Investments in Capital Assets Table included in previous budgets has been removed. The information on the acquisition and amortization of major tangible capital assets previously shown in this table is presented in the 2005–06 Borrowing Program Table presented in Paper D, *Borrowing and Debt Management*.

2006–07 Illustration of Changes in Expense Presentation ($ Millions)

Ministry	2006–07 Before Consolidation[1]			2006–07 After Consolidation[2]	
	Operating	Capital	Total	Impact of Consolidation	Plan 2006–07
Agriculture, Food and Rural Affairs	607	273	880	–	880
One-Time and Extraordinary Assistance	16	–	16	–	16
Attorney General	1,234	67	1,301	–	1,301
Board of Internal Economy	169	–	169	–	169
Children and Youth Services	3,244	20	3,264	–	3,264
Citizenship and Immigration[3]	144	–	144	(53)	91
Community and Social Services	7,007	38	7,045	–	7,045
Community Safety and Correctional Services	1,841	46	1,887	–	1,887
Culture	304	62	366	–	366
Democratic Renewal Secretariat	10	–	10	–	10
Economic Development and Trade	351	–	351	–	351
Education	11,603	10	11,613	(11,175)	438
School Boards[4]	–	–	–	11,182	11,182
Teachers' Pension Plan (TPP)	408	–	408	–	408
Energy	188	41	229	–	229
Environment	273	29	302	–	302
Executive Offices	19	–	19	–	19
Finance – Own Account	1,056	4	1,060	–	1,060
Interest on Debt	9,429	–	9,429	–	9,429
Ontario Municipal Partnership Fund	731	–	731	–	731
Power Purchases	988	–	988	–	988
Contingency Fund	995	–	995	–	995
Government Services	718	18	736	–	736
Pension and Other Employee Future Benefits	594	–	594	–	594
Health and Long-Term Care	34,677	384	35,061	(14,733)	20,328
Hospitals[4]	–	–	–	14,713	14,713
Health Promotion	334	29	363	–	363
Intergovernmental Affairs	9	–	9	–	9
Labour	150	–	150	–	150
Municipal Affairs and Housing	628	65	693	–	693
Natural Resources	622	60	682	–	682
Northern Development and Mines	114	233	347	–	347
Office of Francophone Affairs	4	–	4	–	4
Public Infrastructure Renewal	32	82	114	–	114
Contingency Fund	–	175	175	–	175
Research and Innovation	262	83	345	–	345
Secretariat for Aboriginal Affairs	18	3	21	–	21
Tourism	130	31	161	–	161
Training, Colleges and Universities	5,233	40	5,273	(1,397)	3,876
Colleges[4]	–	–	–	1,359	1,359
Transportation	1,124	819	1,943	–	1,943
Move Ontario	–	6	6	–	6
Year-End Savings	(550)	(150)	(700)	–	(700)
Total	**84,716**	**2,468**	**87,184**	**(104)**	**87,080**

1 Reflects 2006-07 plan as it would have been presented had the Province not consolidated hospitals, school boards and colleges.
2 Consolidation refers to the consolidation of hospitals, school boards and colleges.
3 Adult English-as-a-Second Language transfer payments from the Ministry of Citizenship and Immigration to school boards, are on consolidation included in school-board net expenses.
4 Represents net expenses.

Section II: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation and support of hospitals, charities, amateur athletes, communities and the agricultural sector.

SUPPORT FOR HEALTH CARE, CHARITIES, AND PROBLEM GAMBLING AND RELATED PROGRAMS
($ MILLIONS)

	Interim 2005–06	Plan 2006–07
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,498	1,437
Ontario Trillium Foundation	100	100
Problem Gambling and Related Programs	36	36
Ontario Amateur Athletes	3	13
Commercial Casinos Revenue		
General Government Priorities	316	157
Total	**1,953**	**1,743**

Sources: Ontario Ministry of Public Infrastructure Renewal and Ontario Ministry of Finance.

REVENUE FROM LOTTERIES, CHARITY CASINOS AND SLOT MACHINES AT RACETRACKS

The Ontario Lottery and Gaming Corporation Act, 1999 requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2006–07, an estimated $1,437 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals. While this level of support for hospitals from gaming revenue is down slightly from last year, hospitals' net expense on a consolidated basis will increase by $652 million this year to $14.7 billion made up from other government revenues.
- In 2006–07, the Ontario Trillium Foundation will be provided with $100 million to help build strong and healthy communities through contributions to charitable and not-for-profit organizations.

- Two per cent of gross slot machine revenue, estimated at $36 million for 2006–07, is allocated for problem gambling prevention, treatment and research programs.
- The Quest for Gold Lottery will provide an estimated $13 million for 2006–07 in direct financial support to Ontario high-performance amateur athletes. This funding will also support enhanced coaching and skills development.

Benefits from Commercial Casinos

- In 2006–07, net Provincial revenue from commercial casinos, estimated at $157 million, will be used to support general government priorities, including health care, education and public infrastructure.
- Since their inception, commercial casino operations have created 27,000 direct and indirect jobs in Ontario. Commercial casino operations and the additional tourists they attract contribute an estimated $2.4 billion annually to the Ontario economy.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Support for the Agricultural Sector and Municipalities[1]
($ Millions)

	Interim 2005–06	Plan 2006–07
Agricultural Sector	296	315
Municipalities	73	76
Total	**369**	**391**

1 The agricultural sector's share of racetrack slot-machine revenue and municipalities' share of slot-machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Source: Ontario Ministry of Public Infrastructure Renewal.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over $1.7 billion to Ontario's horse-racing industry, a key component of the Province's agricultural sector. For 2006–07, additional support is estimated at $315 million.
- A portion of gross slot-machine revenue, estimated at $76 million in 2006–07, will be provided to municipalities that host charity casinos and slot operations at racetracks. These revenues will help offset local infrastructure and service costs.

Section III: Support for Investments for Healthier Ontarians

The government's priority of achieving Better Health for Ontarians includes programs and services funded by the Ministries of Health and Long-Term Care, and Health Promotion.

YEAR-OVER-YEAR INCREASES IN FUNDING CONTRIBUTING TO BETTER HEALTH ($ MILLIONS)

	Increase 2006–07	
Ministry of Health and Long-Term Care:		
OHIP Services – to fund services provided by physicians and other health care practitioners including the implementation of the 100 newly announced Family Health Teams.	523	
Home Care, Community and Mental Health Services – to expand home care services to over 13,000 additional Ontarians, and supporting almost 15,000 additional mental health clients in communities.	210	
Long-Term Care Homes — to enhance the quality of care provided to over 75,500 residents of long-term care homes.	155	
Other – primarily to support services provided by public health units, including increasing the Provincial share of public health unit costs to 75 per cent in January 2007; and funding for Ontario drug programs and emergency services.	283	
Subtotal (excluding Hospitals)		1,171
Hospitals – increase in net expense of 155 hospitals (including three specialty psychiatric hospitals), including funding for over 300,000 additional surgical and diagnostic procedures compared to 2003–04.		652
Ministry of Health Promotion:		
Chronic Disease Prevention and Health Promotion — to support programs and services that promote healthy choices and lifestyles, prevent injuries and reduce stress.	68	
Sports and Recreation[1] – primarily to increase physical activity participation to 55 per cent by 2010.	8	
Total Ministry of Health Promotion		76
Total Increase in Funding		**1,899**

[1] Excludes an increase of $28.5 million for capital investment.

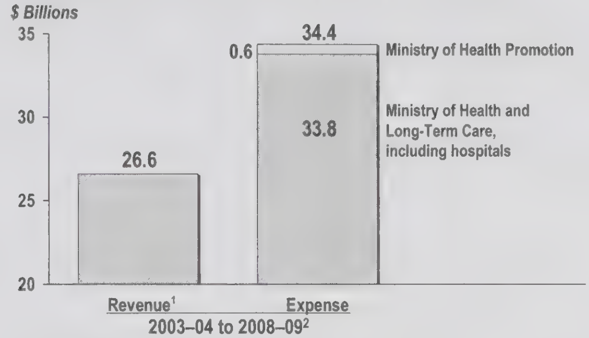
Source: Ontario Ministry of Finance.

In 2006–07, the Ministry of Health and Long-Term Care will spend $1,823 million more than in the previous year. If all spending in the health sector is considered, the Province will be spending $1,899 million more in 2006–07 than in 2005–06. Health-related revenues, including federal transfer payments (such as the Canada Health Transfer, Wait Times Reduction Fund and the Public Health and Immunization Trust), Employer Health Tax, Ontario Health Premium and net proceeds from the Ontario Lottery and Gaming Corporation, are expected to increase by $93 million in 2006–07.

It should be noted that all health-related revenues contribute only a portion of total health-related spending. In 2006–07, health-related revenues are expected to amount to $16.6 billion, or only about 47 per cent of the $35.4 billion required for the Ministries of Health and Long-Term Care and Health Promotion.

By 2008-09, the Province's cumulative additional investment in Better Health will total $34.4 billion. The overall cumulative total revenue from the Ontario Health Premium and federal transfers to support health care will amount to $26.6 billion in 2008–09.

Cumulative Change in Health-Related Revenues and Expense by 2008–09



[1] Includes transfers from the federal government and the Ontario Health Premium only.
[2] Cumulative change by 2008–09 compared to 2003–04.
Source: Ontario Ministry of Finance.

It is important to note that the government also supports a wide range of other programs and services that contribute to better health outcomes. For example, children's mental health programs, provided by the Ministry of Children and Youth Services; drug benefits, provided by the Ministry of Community and Social Services; and medical education programs, provided by the Ministry of Training, Colleges and Universities; all contribute to better health for Ontarians.

Section IV: Potential Risks, Cost Drivers and Contingent Liabilities

As required by the Fiscal Transparency and Accountability Act, 2004, this section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions, program demands, or the materialization of liabilities. It should be cautioned that these sensitivities and risks are only guidelines and can vary, depending on the nature and composition of potential risks and liabilities.

The Ontario Economy and Provincial Revenues

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues are the largest category of Provincial revenue. Of the total $85.7 billion in revenues forecast for 2006–07, $61.3 billion, or about 71 per cent, is expected to come from taxation revenues. Three revenue sources within this category — Personal Income Tax, Retail Sales Tax and Corporations Tax — account for about 56 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of any deficit-reduction plan.

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions. The economic assumptions on which the revenue projections are based are described in the Appendix to Paper B, *Ontario's Economic Outlook.*

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Total Revenues		
– Real GDP	2.3 per cent growth in 2006	$645 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– GDP Deflator	2.2 per cent increase in 2006	
– Canadian Interest Rates	4.0 per cent three-month treasury bill rate in 2006	Between $65 million and $325 million revenue change in the opposite direction for each percentage point change in interest rates.
– U.S. Real GDP	3.4 per cent growth in 2006	Between $195 million and $475 million revenue change for each percentage point change in U.S. real GDP growth.
– Canadian Dollar Exchange Rate	87.0 cents US in 2006	Between $25 million and $115 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.
Total Taxation Revenues		
– Revenue Base[1]	3.6 per cent growth in 2006–07	$590 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– Nominal GDP	4.5 per cent growth in 2006	
Personal Income Tax Revenues		
– Revenue Base	5.6 per cent growth in 2006–07	
Key Economic Assumptions		
– Wages and Salaries	4.7 per cent growth in 2006	$240 million revenue change for each percentage point change in wages and salaries growth.
– Employment	1.3 per cent growth in 2006	
– Unincorporated Business Income	4.2 per cent growth in 2006	
Key Revenue Assumptions		
– Net Capital Gains Income	18.0 per cent decrease in 2006	$4 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	6.0 per cent growth in 2006	$15 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
– 2005 Tax-Year Assessments[2]	$20.3 billion	$203 million revenue change for each percentage point change in 2005 Personal Income Tax assessments.[3]
– 2004 Tax-Year and Prior Assessments[2]	$0.8 billion	$8 million revenue change for each percentage point change in 2004 and prior Personal Income Tax assessments.[3]

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Retail Sales Tax Revenues		
– Revenue Base	4.2 per cent growth in 2006–07	
Includes:		
– Taxable Household Spending	3.6 per cent growth in 2006–07	
– Other Taxable Spending	4.9 per cent growth in 2006–07	
Key Economic Assumptions		
– Retail Sales	4.2 per cent growth in 2006	
– Nominal Consumption Expenditure	4.3 per cent growth in 2006	$90 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
– Revenue Base	2.7 per cent growth in 2006–07	
– Corporate Profits	3.8 per cent growth in 2006	$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
– 2005–06 Tax Assessment Refunds[4]	$1.2 billion payable in 2006–07	$12 million revenue change in the opposite direction for each percentage point change in 2005–06 refunds.[3]
– 2005–06 Tax Payments upon Filing	$0.5 billion receivable in 2006–07	$5 million revenue change for each percentage point change in 2005–06 payments upon filing.[3]
– 2005–06 Tax Assessment Payments	$0.6 billion receivable in 2005–06 and 2006–07	$6 million revenue change for each percentage point change in 2005–06 assessment payments.[3]
Employer Health Tax Revenues		
– Revenue Base	4.3 per cent growth in 2006–07	
– Wages and Salaries	4.7 per cent growth in 2006	$35 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
– Revenue Base	4.9 per cent growth in 2006–07	
– Personal Income	4.7 per cent growth in 2006	$25 million revenue change for each percentage point change in personal income growth.
– 2005 Tax-Year Assessments	$2.4 billion in 2005	$24 million revenue change for each percentage point change in 2005 Ontario Health Premium Assessments.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Gasoline Tax Revenues		
– Revenue Base	0.1 per cent growth in 2006–07	
– Gasoline Pump Prices	88.0 cents per litre in 2006	$2 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
– Revenue Base	0.7 per cent growth in 2006–07	
– Real GDP	2.3 per cent growth in 2006	$13 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
– Revenue Base	1.4 per cent decline in 2006–07	
– Housing Resales	4.7 per cent decline in 2006	$10 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	3.0 per cent growth in 2006	
Health and Social Transfers		
– Canada-wide Revenue Base	$28.6 billion in 2006–07	
– Ontario Revenue Share	37.7 per cent in 2006–07	
– Ontario Population Share	38.9 per cent in 2006–07	$44 million revenue change for each tenth of a percentage point change in population share.
– Ontario Basic Federal PIT Share	43.9 per cent in 2006–07	$6 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.

1 Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

2 Ontario 2005 Personal Income Tax (PIT) is a forecast estimate because most 2005 tax returns are yet to be assessed by the Canada Revenue Agency. Some tax amounts for 2004 and prior years are also yet to be assessed.

3 Any change in 2005 or prior-year PIT assessments or 2005–06 Corporations Tax revenues will have an effect on 2006–07 revenues through a change in the revenue base upon which this year's growth is applied.

4 Corporations Tax refunds for 2005–06 are still subject to uncertainty because a high proportion of corporations have until June 30, 2006 to file their 2005 tax returns.

Expense Risks and Sensitivities

Many programs delivered by the Province are subject to potential risks and cost drivers, such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change, depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities

Program/Sector	2006–07 Assumption	2006–07 Sensitivities
Health Sector	Annual growth of 5.8 per cent.	One per cent change in health spending: $354 million.
Hospitals	Annual growth of 4.6 per cent.	One per cent change in hospital net expense: $147 million.
Drug Programs	Annual growth of 10 per cent.	One per cent change in utilization of all drug programs: $35 million (seniors and social assistance recipients).
Long-Term Care Homes	More than 75,500 long-term care home beds.	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $38,000. One per cent change in number of beds: $28 million.
Home Care	Over 16.7 million hours of homemaking and support services;	One per cent change in hours of homemaking and support services: $4 million.
	8.9 million nursing and professional visits.	One per cent change in nursing and professional visits: $6 million.
Elementary and Secondary Schools[1]	Almost two million average daily pupil enrolment.	One per cent enrolment change: $160 million school boards' net expense.
University Students[1]	314,000 full-time undergraduate and graduate students.	One per cent enrolment change: $22 million of net expense.
Ontario Works[1]	201,000 average annual caseload.	One per cent caseload change: $16 million.
Ontario Disability Support Program[1]	233,000 average annual caseload.	One per cent caseload change: $24 million.
College Students	151,000 full-time students.	One per cent enrolment change: $7 million.
Interest on Debt	Average cost of borrowing is forecast to be approximately 5.1 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million.
Correctional System	2.8 million adult inmate days per year.	Average cost $162 per inmate per day. One per cent change in inmate days: $5 million.

1 Based on 2005–06.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on the finances of both the broader public-sector partners and the Province.

Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians[1]	$75 million	Almost 22,000 physicians in Ontario including approximately 10,900 family doctors and 11,100 specialists.
Hospital Nurses[2]	$43 million	Over 53,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff[3]	$121 million	Over 190,000 staff including teachers, principals, administrators, and support and maintenance staff.
College Staff[4]	$11 million	Almost 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service[5]	$51 million	Over 64,000 public servants.

1 Based on 2006–07 outlook.
2 Based on 2005–06.
3 One per cent increase in salary benchmarks in Grants for Student Needs based on 2005–06 school year.
4 Based on 2004–05.
5 Based on 2005–06, reflects total compensation costs.

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and that can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities, as disclosed in the 2004–05 Annual Report and Consolidated Financial Statements released in September 2005, are described below.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used-fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used-fuel waste management. Under ONFA, the Province is liable to make payments, should the cost estimate for nuclear used-fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used-fuel waste management fund. The Province has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

The Province provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2005 was $3.9 billion. The outstanding loans guaranteed and other contingencies amounted to $3.2 billion at March 31, 2005. A provision of $409 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2004–05 Annual Report and Consolidated Financial Statements of the Province.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2005, there were $8.8 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2005, there were 82 claims outstanding against the Crown that were for amounts over $50 million.

Section V: Fiscal Tables and Graphs

The following pages provide details on Ontario's finances — both historical and projections over the medium term.

Key tables consist of:

- Medium-Term Fiscal Plan and Outlook (2005–06 to 2008–09);
- 2006–07 Fiscal Outlook;
- Details of Provincial Revenue (2002–03 to 2006–07);
- Details of Provincial Total Expense, by Ministry (2002–03 to 2006–07);
- Details of Infrastructure Expenditures (2006–07);
- Summary of Line-by-Line Consolidated Organizations (2005–06); and
- Ten-Year Review of Selected Financial and Economic Statistics (1997–98 to 2006–07).

Key graphs consist of:

- Composition of Revenue (2006–07);
- Composition of Total Expense (2006–07); and
- Composition of Program Expense (2006–07).

Medium-Term Fiscal Plan and Outlook ($ Billions) — Table A1

	Interim[1]	Plan	Outlook	
	2005–06	2006–07	2007–08	2008–09
Revenue	**83.9**	**85.7**	**90.3**	**94.0**
Expense				
Programs	76.2	77.7	80.6	82.6
Interest on Debt	9.1	9.4	9.7	9.9
Total Expense	85.3	87.1	90.3	92.5
Surplus/(Deficit) Before Reserve	**(1.4)**	**(1.4)**	**0.0**	**1.5**
Reserve	–	1.0	1.5	1.5
Surplus/(Deficit)	**(1.4)**	**(2.4)**	**(1.5)**	**0.0**
Investment in Capital Assets	**2.1**	**2.5**	**2.7**	**2.7**
Net Debt[2]	143.0	146.8	149.8	151.2
Accumulated Deficit[2]	113.1	115.4	116.9	116.9
Gross Domestic Product (GDP) at Market Prices	544.7	569.2	593.7	621.6
Net Debt as a per cent of GDP	26.2	25.8	25.2	24.3
Accumulated Deficit as a per cent of GDP	20.8	20.3	19.7	18.8

1 Starting in 2005–06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation.

2 Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

2006–07 Fiscal Outlook ($ Millions)

Table A2

	Interim[1] 2005–06	Plan 2006–07	Change	
			$ Millions	Per Cent
Revenue	**83,939**	**85,730**	**1,791**	**2.1**
Expense				
Programs	76,218	77,651	1,433	1.9
Interest on Debt	9,090	9,429	339	3.7
Total Expense	85,308	87,080	1,772	2.1
Surplus/(Deficit) Before Reserve	**(1,369)**	**(1,350)**	**19**	**(1.4)**
Reserve	–	1,000	1,000	–
Surplus/(Deficit)	**(1,369)**	**(2,350)**	**(981)**	**71.7**
Investment in Capital Assets	**2,100**	**2,544**	**444**	**21.1**
Net Debt[2]	142,961	146,763	3,802	2.7
Accumulated Deficit[2]	113,053	115,403	2,350	2.1

1 Starting in 2005–06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation.

2 Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Revenue
($ Millions)

Table A3

	2002–03	2003–04	Actual 2004–05	Interim 2005–06	Plan 2006–07
Taxation Revenue					
Personal Income Tax	18,195	18,301	19,320	21,028	21,671
Retail Sales Tax	14,183	14,258	14,855	15,523	16,165
Corporations Tax	7,459	6,658	9,883	9,729	9,845
Employer Health Tax	3,589	3,753	3,886	4,205	4,314
Ontario Health Premium	–	–	1,737	2,427	2,551
Gasoline Tax	2,306	2,264	2,277	2,288	2,303
Fuel Tax	682	681	727	737	742
Tobacco Tax	1,183	1,350	1,453	1,408	1,485
Land Transfer Tax	814	909	1,043	1,141	1,125
Electricity Payments-In-Lieu of Taxes	711	627	511	940	790
Other Taxes	429	347	283	314	283
	49,551	**49,148**	**55,975**	**59,740**	**61,274**
Government of Canada					
Canada Health and Social Transfer (CHST)	7,346	7,345	–	–	–
Canada Health Transfer (CHT)	–	–	5,640	7,139	7,619
Canada Social Transfer (CST)[1]	–	–	2,912	3,318	3,420
CHST Supplements	191	577	775	584	–
Social Housing	525	528	522	531	530
Infrastructure Programs	97	150	209	289	359
Wait Times Reduction Fund	–	–	242	243	467
Medical Equipment Funds	–	192	387	194	–
Other Government of Canada	735	1,101	1,195	922	1,187
	8,894	**9,893**	**11,882**	**13,220**	**13,582**
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,288	2,106	1,992	1,953	1,743
Liquor Control Board of Ontario	939	1,045	1,147	1,182	1,254
Ontario Power Generation Inc. and Hydro One Inc.	717	(17)	444	1,090	919
Other Government Enterprises	(2)	(64)	(5)	(15)	4
	3,942	**3,070**	**3,578**	**4,210**	**3,920**
Other Non-Tax Revenue					
Reimbursements	1,111	1,206	1,241	1,301	1,358
Electricity Debt Retirement Charge	889	1,000	997	1,018	1,027
Vehicle and Driver Registration Fees	982	985	976	1,010	1,021
Power Sales	635	510	610	961	988
Other Fees and Licences	606	594	506	534	556
Liquor Licence Revenue	530	488	489	495	453
Net Reduction of Power Purchase Contract Liability	161	104	236	396	412
Sales and Rentals	560	532	352	336	396
Royalties	304	248	278	175	243
Miscellaneous Other Non-Tax Revenue	726	622	721	543	500
	6,504	**6,289**	**6,406**	**6,769**	**6,954**
Total Revenue	**68,891**	**68,400**	**77,841**	**83,939**	**85,730**

[1] Includes 2005 Federal Budget additional Early Learning and Child Care revenues of $272 million in 2005–06 and $254 million in 2006–07.

Total Expense ($ Millions) — Table A4

Ministry	Pre-Expanded Reporting Entity[1] 2002–03	2003–04	Actual 2004–05	Post-Expanded Reporting Entity[1] Interim[2] 2005–06	Plan 2006–07
Agriculture, Food and Rural Affairs	666	843	799	863	880
One-Time and Extraordinary Assistance	18	64	601	277	16
Attorney General	1,095	1,223	1,209	1,291	1,301
Board of Internal Economy	146	196	145	163	169
Children and Youth Services	2,438	2,640	2,835	3,346	3,264
Citizenship and Immigration	55	55	65	94	91
Community and Social Services	5,862	6,009	6,392	6,745	7,045
Community Safety and Correctional Services	1,722	1,713	1,750	1,806	1,887
Culture	373	327	344	454	366
Democratic Renewal Secretariat	–	–	2	3	10
Economic Development and Trade	104	89	85	230	351
Education	345	352	368	467	438
School Boards	8,739	9,400	10,251	10,758	11,182
Teachers' Pension Plan (TPP)	238	235	240	295	408
Energy	190	169	194	207	229
Environment	250	262	295	302	302
Time-Limited Environmental Expense	–	3	12	25	–
Executive Offices	20	24	19	19	19
Finance – Own Account	1,082	1,234	1,074	1,226	1,060
Interest on Debt	9,694	9,604	9,368	9,090	9,429
Community Reinvestment Fund/Ontario Municipal Partnership Fund	622	651	626	708	731
Community Reinvestment Fund One-Time Transition Funding	–	–	233	–	–
Electricity Consumer Price Protection Fund	665	253	–	–	–
Power Purchases	786	797	840	961	988
Contingency Fund	–	–	–	50	995
Government Services	331	462	897	752	736
Pension and Other Employee Future Benefits	102	309	458	736	594
Health and Long-Term Care[3]	14,758	16,232	17,573	19,157	20,328
Hospitals[3]	11,241	12,830	13,759	14,061	14,713
Health Promotion	157	172	198	258	363
Intergovernmental Affairs	9	6	13	10	9
Labour	123	117	129	146	150
Municipal Affairs and Housing	656	635	735	904	693
Natural Resources	526	627	563	635	682
Northern Development and Mines	302	189	320	357	347
Office of Francophone Affairs	3	3	3	4	4
Public Infrastructure Renewal[4]	93	(35)	72	49	114
Contingency Fund	–	–	–	–	175
Research and Innovation	158	194	262	372	345
Secretariat for Aboriginal Affairs	18	15	21	49	21
Tourism	173	244	211	261	161
Training, Colleges and Universities	2,473	2,834	3,315	3,479	3,876
Colleges	987	1,090	1,289	1,258	1,359
Transportation	1,554	1,816	1,831	2,208	1,943
Move Ontario	–	–	–	1,232	6
Year-End Savings	–	–	–	–	(700)
Total Expense	**68,774**	**73,883**	**79,396**	**85,308**	**87,080**

1 Starting in 2005–06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.

2 The 2005–06 interim fiscal results reported in this Budget are based on the best information available as of early March 2006.

3 The 2003-04 expenses for Health and Long-Term Care and Hospitals include $824 million of SARS-related and major one-time health costs.

4 Credit expense amounts relate to consolidation adjustments between the Ontario Realty Corporation (ORC) and ministries to reflect net spending for the year.

2006–07 Infrastructure Expenditures ($ Millions) — Table A5

	Total Infrastructure Expenditures 2005–06 Interim	2006–07 Plan		
		Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure[1]	Total Infrastructure Expenditures
Transportation				
Transit	1,649	546	397	943
Highways	1,253	1,295	116	1,411
Other Transportation	494	2	60	62
Health				
Hospitals	274	305	–	305
Other Health	180	32	172	204
Education				
School Boards	1,031	–	1,110	1,110
Colleges	44	13	–	13
Universities	86	–	27	27
Water/Environment	337	10	226	236
Municipal and Local Infrastructure[2]	496	2	381	383
Justice	96	64	53	117
Other	497	275	232	507
Total[3]	**6,437**	**2,544**	**2,774**	**5,318**

1 Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's Total Expenses in Table A4.

2 Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

3 Total expenditures include $36 million in flow-throughs in Investment in Capital Assets (for provincial highways) and $208 million in flow-throughs in Transfers and Other Expenditures in Infrastructure ($31 million in Transportation, $26 million in Water/Environment, $150 million in Municipal and Local Infrastructure, and $1 million in Other Infrastructure).

SUMMARY OF LINE-BY-LINE CONSOLIDATED ORGANIZATIONS

The government carries out a number of activities through government organizations that are consolidated on a line-by-line basis. In some circumstances, these organizations provide programs directly to the public. In other cases, they provide services to the government itself.

Table A6 is included to provide information on the total revenues and expenses of these organizations, the provincial transfer payments they receive and their net impact on the Provincial deficit.

SUMMARY OF LINE-BY-LINE CONSOLIDATED ORGANIZATIONS ($ MILLIONS) — TABLE A6

	2005–06 Interim				
	Agency[1]				
Ministry/Agency	Total Revenue	Total Expense	Net (Income)/ Loss	Transfers from Province Included in Agency Revenue	Net Increase/ (Decrease) to Provincial Deficit
Agriculture, Food and Rural Affairs					
Agricorp	462	428	(34)	156	122
Attorney General					
Legal Aid Ontario	298	311	13	260	273
Culture					
Ontario Science Centre	35	35	–	18	18
Ontario Trillium Foundation	107	107	–	100	100
Royal Ontario Museum	30	35	5	19	24
Economic Development and Trade					
Ontario Immigrant Investor Corporation	11	5	(6)	–	(6)
Education					
Education Quality and Accountability Office	35	40	5	35	40
Ontario Educational Communications Authority	79	76	(3)	59	56
Energy					
Independent Electricity System Operator[2]	157	144	(13)	–	(13)
Ontario Energy Board	29	29	–	–	–
Ontario Power Authority	27	27	–	–	–
Finance					
Ontario Financing Authority	25	25	–	17	17
Ontario Securities Commission	68	66	(2)	–	(2)
Health and Long-Term Care					
Cancer Care Ontario	501	509	8	473	481
Smart Systems for Health	116	116	–	107	107
Government Services					
Ontario Racing Commission	12	12	–	–	–
Municipal Affairs and Housing					
Ontario Housing Corporation	117	79	(38)	116	78
Northern Development and Mines					
Northern Ontario Heritage Fund Corporation	70	100	30	61	91

SUMMARY OF LINE-BY-LINE CONSOLIDATED ORGANIZATIONS ($ MILLIONS) — TABLE A6

Ministry/Agency	2005–06 Interim				
	Agency[1]			Transfers from Province Included in Agency Revenue	Net Increase/ (Decrease) to Provincial Deficit
	Total Revenue	Total Expense	Net (Income)/ Loss		
Public Infrastructure Renewal (PIR)					
Ontario Strategic Infrastructure Financing Authority	89	84	(5)	22	17
Ontario Realty Corporation (ORC)	54	53	(1)	53	52
ORC Operating as Agent for the Province[3]	722	717	(5)	723	718
Tourism					
Metropolitan Toronto Convention Centre	47	42	(5)	–	(5)
Ontario Place Corporation	19	19	–	3	3
Ontario Tourism Marketing Partnership Corporation	64	67	3	60	63
Transportation					
GO Transit	467	341	(126)	249	123
Toronto Area Transit Operating Authority	45	3	(42)	45	3
Total	**3,686**	**3,470**	**(216)**	**2,576**	**2,360**

1 The revenues and expenses of government organizations, except for government business enterprises, are consolidated on a line-by-line basis with ministry revenues and expenses. Adjustments are made to present the accounts of these government organizations on a basis consistent with the Province's accounting policies, e.g., conforming the accounting for capital grants received by an organization to the Province's accounting policy. These adjustments have been made to the agencies' revenues and expenses above except for interest revenue and interest expense adjustment. Upon consolidation, adjustments are made to eliminate significant interorganization transactions, e.g., transfers received from the Province.

2 The Ontario Electricity Financial Corporation (OEFC) has projected excess of revenue over expense of $1,085 million for 2005–06. As OEFC's revenues are dedicated to managing and retiring the debt and other liabilities of the former Ontario Hydro, OEFC is not included in this table as its activities are not comparable to the activities of other government organizations.

3 ORC maintains several operating bank accounts that are held "in trust," administered on behalf of PIR, and relate directly to the operation of PIR-owned and -leased properties or services provided to other ministries or agencies of the Ontario Government. The activities reported under ORC Operating as Agent for the Province are shown separately as they will not be reflected on ORC's financial statements.

TEN-YEAR REVIEW OF SELECTED FINANCIAL AND ECONOMIC STATISTICS ($ MILLIONS)

	1997-98	1998-99	1999-00
Financial Transactions			
Revenue	52,782	56,050	65,042
Expense			
Programs[2]	48,019	49,036	53,347
Interest on Debt	8,729	9,016	11,027
Total Expense[2]	56,748	58,052	64,374
Surplus/(Deficit) Before Reserve	**(3,966)**	**(2,002)**	**668**
Reserve	–	–	–
Surplus/(Deficit)	**(3,966)**	**(2,002)**	**668**
Net Debt[3]	**112,735**	**114,737**	**134,398**
Accumulated Deficit[3]	**112,735**	**114,737**	**134,398**
Gross Domestic Product (GDP) at Market Prices	359,353	377,897	409,020
Personal Income	289,537	304,652	321,702
Population — July (000s)	11,228	11,367	11,506
Net Debt per Capita (dollars)	10,041	10,094	11,681
Personal Income per Capita (dollars)	25,787	26,801	27,959
Total Expense as a per cent of GDP	15.8	15.4	15.7
Interest on Debt as a per cent of Revenue	16.5	16.1	17.0
Net Debt as a per cent of GDP	31.4	30.4	32.9
Accumulated Deficit as a per cent of GDP	31.4	30.4	32.9

1 Starting in 2005–06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

2 Starting in 2002–03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated organizations are accounted for on a full accrual basis.

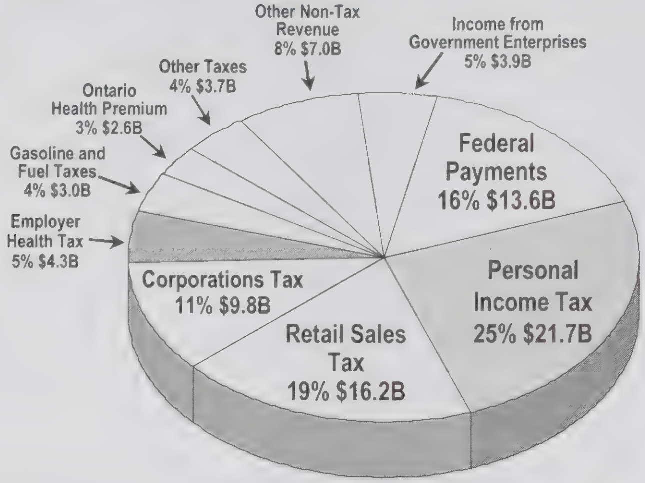
3 Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these BPS entities.

Sources: Ontario Ministry of Finance and Statistics Canada.

TABLE A7

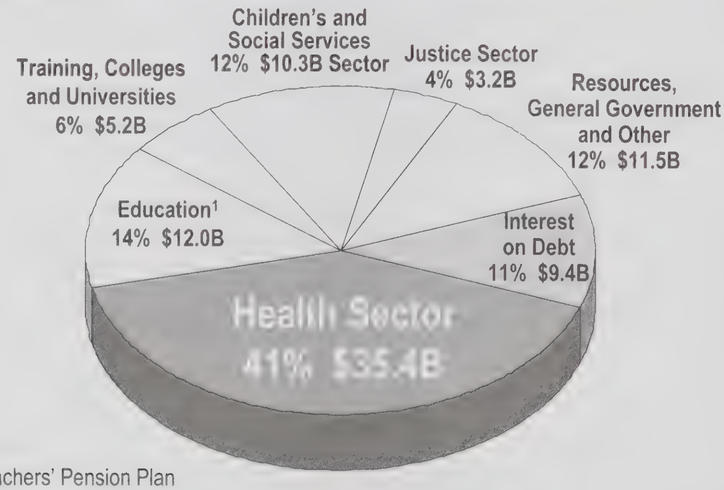
2000–01	2001–02	2002–03	2003–04	Actual 2004–05	Interim[1] 2005–06	Plan 2006–07
66,294	66,534	68,891	68,400	77,841	83,939	85,730
53,519	55,822	59,080	64,279	70,028	76,218	77,651
10,873	10,337	9,694	9,604	9,368	9,090	9,429
64,392	66,159	68,774	73,883	79,396	85,308	87,080
1,902	**375**	**117**	**(5,483)**	**(1,555)**	**(1,369)**	**(1,350)**
–	–	–	–	–	–	1,000
1,902	**375**	**117**	**(5,483)**	**(1,555)**	**(1,369)**	**(2,350)**
132,496	**132,121**	**132,647**	**138,557**	**140,662**	**142,961**	**146,763**
132,496	**132,121**	**118,705**	**124,188**	**125,743**	**113,053**	**115,403**
440,759	453,701	478,141	493,345	517,407	544,674	569,184
347,653	361,187	370,599	382,211	396,757	415,600	435,133
11,685	11,898	12,102	12,260	12,407	12,541	12,696
11,339	11,104	10,961	11,302	11,337	11,399	11,560
29,752	30,357	30,623	31,175	31,978	33,139	34,273
14.6	14.6	14.4	15.0	15.3	15.7	15.3
16.4	15.5	14.1	14.0	12.0	10.8	11.0
30.1	29.1	27.7	28.1	27.2	26.2	25.8
30.1	29.1	24.8	25.2	24.3	20.8	20.3

Composition of Revenue 2006–07



Note: Numbers may not add due to rounding.

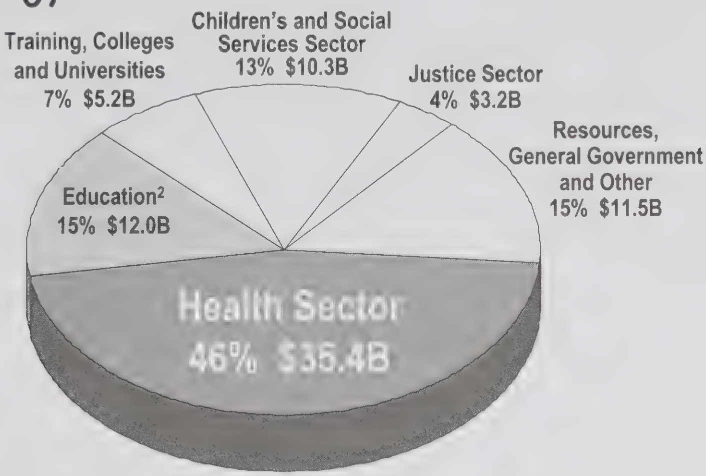
Composition of Total Expense 2006–07



[1] Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

Composition of Program Expense[1] 2006–07



[1] Program expense equals total expense minus interest on debt.
[2] Includes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

PAPER B

Building Ontario's Economic Advantage

Introduction

A strong economy is the foundation of Ontarians' quality of life. Well-paid jobs are key to families' well-being and the prosperity and health of our communities. The goal of the province's economic policy is to strengthen the foundation for prosperity and increase the capacity of Ontario's people and businesses to compete in the global economy by creating new opportunity.

Ontario stands out from many other parts of the world because of the quality of its business environment and the diversity of its economy. This is due to the integrity and efficiency of its legal and regulatory system, excellent communications and physical infrastructure, publicly funded health care, competitive tax system, and highly skilled and diverse workforce.

Over the past year, Ontario's economy maintained moderate growth in the face of serious challenges — notably high world oil prices and the continued appreciation of the Canadian dollar. In 2005, both economic growth and job creation surpassed the average private-sector forecasts prevailing in the last Budget.

Government policy has a vital role to play in maintaining and enhancing Ontario's competitive advantages and in helping to ensure that the economy can weather the challenges it may face.

The key elements of the government's strategy for strengthening the Ontario economy include:

- introducing Move Ontario — the government's major new investment of $1.2 billion in public transit, roads and bridges, which are critical to ensuring future business investment and job creation in Ontario. Move Ontario builds on the government's five-year, more than $30 billion ReNew Ontario infrastructure investment plan;
- encouraging innovation through the new Ministry of Research and Innovation and investments in leading-edge public and not-for-profit research facilities;
- maintaining a competitive tax and business environment, including a proposed five per cent capital tax rate cut starting in 2007 to encourage investment growth;
- investing in people through early learning, elementary and secondary education, and Reaching Higher: The McGuinty Government Plan for Postsecondary Education;
- expanding Ontario's employment and training system through a Jobs and Skills Renewal Strategy with some new resources from three landmark Canada–Ontario agreements on labour-market services and immigration;
- helping new Canadians, including internationally trained professionals and tradespersons, integrate more rapidly into Ontario's workforce;
- enhancing Ontario's health care advantage;

- embarking on one of the most ambitious building programs in North America for new electricity generation, taking steps to develop new sources of clean, renewable power and introducing initiatives to encourage conservation;
- targeting investments in key sectors, including manufacturing, the entertainment and creative cluster, forest products, mining and agriculture;
- modernizing the regulatory environment to help businesses innovate, while promoting the confidence of consumers and investors; and
- building strong communities through new, more effective partnerships with municipalities.

Details of the government's economic strategy are presented in the following sections.

Section I focuses on the government's Move Ontario investments in public transit, roads, bridges, highways and other infrastructure investments.

Section II reviews the government's programs that, in partnership with the postsecondary and private sectors, foster a climate of innovation in the Ontario economy.

Section III reviews the government's initiatives in the areas of education and training, which will strengthen Ontario's education and skills advantage.

Section IV outlines the Province's investments in health care and their key role in supporting economic growth.

Section V examines Ontario's job creation.

Section VI describes the Province's commitment to building strong communities and examines key economic sectors.

Section VII summarizes measures to encourage investment.

Section I: Building Ontario's Economic Infrastructure Advantage

A modern, vital and renewed economic infrastructure supports the movement of goods and people, ensures reliable power supplies, strengthens Ontario's economic advantage, and creates opportunity for Ontario businesses and people.

Past neglect has generated an infrastructure deficit. Demographic factors will also put pressure on Ontario's infrastructure. Ontario's population is expected to grow from 12.5 million people in 2005 to a projected 16.4 million by 2031. The government needs to invest strategically in the infrastructure that supports future economic growth.

Through the ReNew Ontario infrastructure plan, the government and its partners are investing more than $30 billion over five years in strategic projects that reflect the priorities of Ontarians: health care, education and economic prosperity. These infrastructure investments will improve and expand schools, hospitals and the judicial system; create new affordable housing; upgrade and expand highways and transit systems; provide support for key infrastructure in northern Ontario; and improve municipal water systems, bridges and roads across the province. It is estimated that, over the next five years, the plan will support a total of about 360,000 jobs in Ontario.

This Budget builds on ReNew Ontario with Move Ontario, an additional $1.2 billion one-time investment in public transit, municipal roads and bridge infrastructure projects. The government's public transit investments through Move Ontario could lead to projects totalling nearly $2.5 billion in value, that, together with $400 million in provincial funding for road and bridge projects, have the potential to generate employment across Ontario of up to 27,000 jobs.

The government is undertaking these infrastructure investments because they are vitally important to the economic well-being of the province. In addition to the long-term productivity benefits of improved infrastructure, these projects will have a substantial and positive impact on the provincial economy and employment while they are under construction.

Expanding and Modernizing Public Transit

A comprehensive, efficient and safe public transit system enhances the mobility of Ontario residents and supports the growth and development of Ontario's cities and municipalities.

Delays caused by gridlock and congestion in the Greater Toronto Area (GTA) cost the economy about $2 billion per year in lost time and lost productivity. By reducing congestion on Ontario's roads and highways, a renewed Ontario transit system will also

deliver real benefits to the environment, people's health, road safety and the efficient movement of people and goods.

All these benefits add up to improvements in the day-to-day quality of life in Ontario communities and help to promote investment growth and job creation across the province.

Investing in public transit benefits the economy in a number of important ways. Public transit makes cities more attractive to businesses when deciding where to locate. Public transportation in large cities is a more fuel-efficient mode of transportation than automobiles, and a wider public transit system provides local businesses with access to a larger pool of workers and potential customers.

The many benefits, including economic benefits, of investing in public transit are recognized by Canadian business groups. According to the Canadian Chamber of Commerce, "Strengthening and expanding public transit networks will reduce congestion, ensure a cleaner environment, manage urban growth and provide economic returns."

Greater Toronto Transportation Authority

Over the last five years, the population of the GTA and Hamilton has increased by an average of roughly 125,000 people per year. This area is currently served by 10 different transit systems with insufficient coordination.

The government will introduce legislation in 2006 to establish the Greater Toronto Transportation Authority (GTTA) to lead the delivery of an integrated and more convenient transportation network to meet the growing needs of people in the GTA and Hamilton.

The GTTA would support the success of the Growth Plan for the Greater Golden Horseshoe and the Greenbelt Plan, which together create the planning framework on which to build the future growth of the GTA and surrounding regions. The GTTA would also reduce gridlock by attracting more riders to area transit systems and by removing cars from area roads and highways. It would plan, coordinate and set priorities for public transit and major regional roads.

The GTTA would be able to manage the GTA Fare Card System, an integrated ticket system to allow people to move easily across the region with a single card. The implementation of the GTA Fare Card System would enhance service levels for Ontario's most densely populated and fastest-growing urban area and would make travelling on 10 different transit systems as easy as the swipe of a card.

Expanding Subway and Public Transit Systems

The government's Move Ontario transit funding is the largest provincial investment in municipal transit infrastructure improvements in the GTA since the mid-1970s.

The Province is providing $838 million through Move Ontario for priority projects in the GTA.

Move Ontario funding means, for the first time in the province's history, Ontario can have new subway construction that crosses a regional boundary.

The City of Toronto and York Region will be able to use $670 million in new funding through the Move Ontario Trust to help extend the subway into York Region, ending at the Vaughan Corporate Centre. The Region of York has had a population increase of over 50 per cent over the last 10 years. The subway would include a station at York University, currently the second-largest generator of single-person auto use in the GTA, next to Pearson International Airport. Once up and running, the subway extension will result in 36 million transit rides per year, removing up to 30 million car trips from the road. The extension will also reduce congestion on the Yonge line and make more effective use of the Spadina line by diverting approximately 10 per cent of passengers off the Yonge line.

The Province will explore financial tools to assist the City of Toronto and York Region with their share of the cost of this expansion. This will include a role for the private sector and the use of innovative financing strategies to help fund the project from projected growth in property taxes. For example, the Province intends to introduce legislation to enable tax-increment financing for this initiative. This new municipal fiscal tool would be introduced on a pilot basis, allowing for a prudent review of its use in an Ontario context.

The government is providing Brampton with $95 million through Move Ontario to improve local transit. Brampton will be able to use the funding to build its AcceleRide Project, providing express bus service on major streets in the City of Brampton.

The government is providing Mississauga with $65 million through Move Ontario for improvements to local transit. Mississauga will be able to use the funding to develop its Transitway, a dedicated bus right-of-way line along Highway 403 and Eglinton Avenue. The Transitway will extend from Highways 403/407 in the west to Renforth Drive/Highway 427 in the east, with 14 stations planned. The government will also support the Transitway through an additional $25 million in GO Transit investments. This initiative will help remove over five million car trips from the road annually, once fully implemented.

The Province is providing York Region with $7 million through Move Ontario for new transit planning. This new funding will be used for the environmental assessment and detailed planning required for Phase II of the VIVA Transit express bus service. The service connects communities in York Region with each other and with the City of Toronto.

The Province will also provide $1 million in funding through Move Ontario towards an environmental assessment relating to the future of the Scarborough subway.

Promoting investment growth and job creation in Ontario through Move Ontario also contributes to Canada's economic growth, underlining the critical need for a federal partnership in public transit investment in the province. Federal funding support is necessary in order to ensure public transit expansion in the GTA is fully achieved.

Move Ontario represents a substantial new investment that, together with contributions from federal and municipal partners, will be a real start on improving the movement of people and goods, promoting the integration of transit services, easing congestion, and helping to develop a shared investment plan for transportation.

Move Ontario Supplements Other Critical Transit Investments

This new injection of funds and a new structure to oversee public transit development in the GTA build upon a number of government initiatives:

- The government is dedicating part of the existing provincial gasoline tax to public transit, which could provide more than $1.4 billion over five years to 83 municipal transit systems in 110 communities. Municipalities will be able to use funding for capital projects and for transit system operations.
- In 2005–06, gas tax funding is being provided to 83 municipalities including the City of Toronto — $120.1 million; Ottawa — $27.4 million; Mississauga — $10.9 million; London — $6.8 million; Waterloo Region — $6.1 million; Windsor — $3.0 million; Guelph — $2.1 million; Greater Sudbury — $2.0 million; and the North — total funding of $6.4 million.
- In January 2006, the Province of Ontario and GO Transit announced that they are investing more than $73 million in new railcars and buses. These new railcars will increase GO Transit's bi-level rail fleet to 415 cars and its bus fleet to 299. The additional railcars will allow GO Transit to carry more than 6,400 additional daily passengers — the equivalent of a 14-kilometre line of cars, bumper to bumper.
- In January 2005, the Ontario Government and GO Transit announced plans for a new GO station in Mississauga, with construction to begin this fall and the station to be ready for riders in early 2007.
- The Province is providing a one-time $200 million transit investment to the City of Toronto. The City will be able to use this funding to help support subway operations.
- The Governments of Canada and Ontario, together with the City of Ottawa, have committed long-term support for the region's urban transit needs by proceeding with the O-Train expansion. The project is planned to connect downtown Ottawa (Rideau Centre) with residential centres in south Ottawa (Barrhaven). The Governments of Canada and Ontario will each contribute up to $200 million to this project. The City will match this funding and be responsible for the balance of the project's costs.
- The Government of Ontario contributed $50 million, along with a matching federal government contribution, to the construction of Phase I of the VIVA rapid transit system in York Region.
- The Ontario Government is joining the federal government and the Region of Waterloo in funding almost $3 million for technical studies and an environmental assessment for a transit expansion project serving the Region of Waterloo. The studies will examine a proposed 14-kilometre line along the central transit corridor, which will run north-south to connect the cities of Kitchener and Waterloo.
- Starting in 2007, a new predictable, multi-year municipal transit bus replacement program will replace the existing Ontario Transit Vehicle Program, which ends today. To ensure existing demands are satisified until the new program is up and running, the Province is providing $114 million to those municipalities that have placed orders for new buses and bus refurbishments.
- The Province, in collaboration with the federal government and the City of Toronto, is investing over $1 billion in the city's transit priorities, such as the TTC State of Good Repair program.

Achievements in Enhancing Public Transit

- ☐ GO Transit ridership is estimated to have increased by over four per cent, carrying over 47 million riders in 2005–06.
- ☐ Gas tax revenues transferred to municipalities have helped reduce the average age of buses from 12 years to 10.5 years, improving the bus travel experience and increasing accessibility. Investments in new locomotives and track improvements will allow for longer GO trains.
- ☐ In 2005, GO Transit opened three new stations: Mount Joy, Kennedy and Milliken.
- ☐ TTC ridership is estimated to have increased by three per cent, carrying over 430 million riders in 2005–06.
- ☐ Improved transit accessibility for those with disabilities, with 47 per cent of the fleet in the province now accessible.

ONTARIO'S CLEAN AIR AND CLIMATE CHANGE INITIATIVES

The Ontario Medical Association has estimated that air pollutants cause 5,800 Ontarians to die prematurely every year, costing the health care system and the Ontario economy almost $1 billion. To improve air quality in Ontario, the Province is implementing a number of initiatives. These initiatives will also lead to reduced emissions of greenhouse gases (GHG) — the key contributors to climate change:

- ☐ Ontario has committed to replace the five coal-fired electricity generating stations, which will provide the largest single GHG-reduction initiative in Canada, equivalent to taking seven million cars off the road.
- ☐ Ontario has filed comments with the U.S. Environmental Protection Agency opposing rule changes that allow U.S. coal-burning power plants to operate longer. More than half of Ontario's air pollution originates in the United States.

It is important that Ontario businesses and individuals are part of the solution to improve air quality and reduce GHG emissions. The government is implementing several initiatives to help promote private-sector environmental leadership:

- ☐ New investments in transit across the province through Move Ontario will help reduce air pollution and GHG emissions by providing alternatives to driving.
- ☐ Ontario's Renewable Fuels Standard for ethanol and the $520 million Ontario Ethanol Growth Fund will create opportunities for the rural economy, while reducing GHG emissions by 800,000 tonnes.
- ☐ To promote the use of hybrid electric vehicles in Ontario, the Government of Ontario proposes to double the maximum retail sales tax rebate for qualifying hybrid electric vehicles from $1,000 to $2,000 for vehicles delivered to purchasers after March 23, 2006.
- ☐ Ontario is updating the Drive Clean program to exempt cleaner, newer cars and target older, less efficient cars.
- ☐ The Province's air emissions reporting standards are being harmonized with federal regulations to save time and money for businesses complying with emissions regulations.
- ☐ Installation of 800,000 smart meters in Ontario homes and businesses by 2007, and in all homes and small businesses by 2010, allowing electricity consumers to reduce and shift their electricity demand in response to electricity prices.
- ☐ The government is reducing electricity use in its own buildings by 10 per cent by 2007, using such innovative solutions as the deep water cooling of the government buildings at Queen's Park.
- ☐ The government is investing $34 million in 2005–06 to complete 281 energy reduction projects in government buildings.

Ontario's Roads, Bridges and Highways

Ontario's 16,500-kilometre provincial highway network carries $1.2 trillion worth of goods to national and international markets annually. Investment in the construction and maintenance of highways, roads and bridges increases mobility and reduces transportation costs for businesses and families, thereby boosting productivity and sustaining economic growth. Effective highway design, construction and maintenance also contribute to Ontario retaining its high ranking among North American jurisdictions in terms of road safety.

As announced under the five-year ReNew Ontario infrastructure plan, the Province is providing a total of $3.4 billion to improve the provincial highway network in southern Ontario. The Northern Ontario Highway Strategy, announced in August 2005, includes investments of approximately $1.8 billion to renew and expand northern highways.

Strategic investments under Renew Ontario will focus on the key economic corridors in the province, especially the 400 series of highways and the Queen Elizabeth Way (QEW). The government will also focus on international trade routes and gateways such as the London-to-Windsor corridor to the Windsor–Detroit gateway; the Highway 403 corridor; the QEW to the Niagara–Fort Erie gateway; and Highway 402 to Sarnia.

Ontario's network of municipal roads and bridges also plays an important role in moving people and goods across the province. Local residents, businesses, tourists, school buses, mail trucks, agricultural vehicles, garbage trucks and emergency vehicles all use Ontario's municipal roads and bridges. The rehabilitation of municipal roads and bridges will not only support most economic sectors, such as agriculture, tourism and trade, but will also promote safety in Ontario's communities.

As well, municipal roads and bridges are key parts of Ontario's transportation system by providing the necessary connections among smaller communities, and access between these communities and the provincial highway network.

Under Move Ontario, the government is making an immediate, one-time new investment of $400 million to help municipalities primarily outside the GTA — with special emphasis on rural and northern communities — invest in municipal roads and bridges. This funding would allow resurfacing of 3,000 kilometres of municipal roads or the repair of up to 800 bridges.

Achievements in Improving the Provincial Highway Network

- ☐ Constructed more than 300 kilometres of new lanes — relieving congestion and improving productivity.
- ☐ Repaired almost 2,500 kilometres of lanes — improving safety and ride quality.
- ☐ Reconstructed or repaired 152 bridges — improving safety and access.

Completed and continuing projects include:

- ☐ Highway 401 across Toronto — major rehabilitation and additional lanes.
- ☐ New interchanges on the QEW at Third Line and Guelph Line — improving access and facilitating higher-density development.
- ☐ Opening of the first-ever high-occupancy vehicle (HOV) lanes on Ontario provincial Highways 404 and 403 — relieving congestion.
- ☐ Widening Highway 406 to Port Robinson Road near Welland — relieving congestion.
- ☐ Ongoing work to widen Highway 401 between Cambridge and Woodstock — improving a key economic corridor.

Projects starting:

- ☐ Widening Highway 7 from Highway 417 to Carleton Place in the Ottawa region — improving safety and traffic flow.
- ☐ Extension of Highway 404 to Ravenshoe Road in East Gwillimbury in York Region — improving local and regional transportation access.
- ☐ Widening of Highway 401 from Sydenham Road to Montreal Street in Kingston — improving safety and traffic flow.
- ☐ Widening the QEW through St. Catharines — improving safety, reducing congestion and enhancing border access.
- ☐ Widening of Highway 402 in Sarnia — improving access to the Blue Water Bridge border crossing.
- ☐ Potential new HOV lanes as part of projects to improve the QEW in Halton Region and the Queensway in Ottawa (Highway 417).
- ☐ Moving forward with the environmental assessment for the extension of Highway 427 in Vaughan.
- ☐ Extending Highway 410 from Bovaird Drive in Brampton to join Highway 10 north of Mayfield Road in Caledon.

Implementing the $1.8 billion Northern Ontario Highways Strategy announced in August 2005. Key investments over five years include:

- ☐ Accelerating construction on Highways 11 and 69 to complete the widening of these highways to North Bay and Sudbury;
- ☐ A new Highway 11/17 corridor west of Thunder Bay (the Shabaqua Highway); and
- ☐ Widening Highway 17 to four lanes east of Sault Ste. Marie through the Garden River First Nation.

Borders

Over 70 per cent of the value of Canada's international trade, travelling by road, flows into the United States across Ontario borders. In 2004, roughly 45 million vehicles, including nine million trucks, used Ontario's 14 border crossings with the United States. Between 1994 and 2004, the value of trade by truck between the United States and Ontario increased by over 52 per cent. Because the Ontario and Canadian economies depend so greatly on these critical border crossings, it is a priority for both the provincial and national governments to ensure that they accommodate growing trade with the United States.

The McGuinty government recognizes the significance of trade and tourism to both the Canadian and U.S. economies. The safe and efficient movement of goods and people is vital to the economies of both countries.

Each year, through the Windsor–Detroit corridor alone, more than 20 million cars, trucks and buses and $140 billion worth of goods flow between Canada and the United States, making this location the most economically significant border crossing in North America.

To increase capacity at Ontario's borders, the government is focusing on the Windsor border as a first priority, developing short-, medium- and long-term solutions in concert with our municipal, federal and U.S. partners.

As a result of successful federal, provincial and municipal partnerships, the Province is implementing the Let's Get Windsor–Essex Moving Strategy. The Windsor Border Initiatives Implementation Group (BIIG) has been established, with staff located in Windsor, London and Toronto, to take responsibility for the implementation of Phases I and II of the strategy. Some projects have been completed while others are underway. In addition to initiatives related to the Windsor border, projects are underway in Niagara, Sarnia and Sault Ste. Marie.

Progress in Border-Crossing Efficiency:

Windsor

- ☐ Implementing a $300 million federal-provincial infrastructure investment, including the Let's Get Windsor-Essex Moving Strategy.
- ☐ The Border Transportation Partnership is proceeding on schedule to identify the preferred location for a new Windsor-Detroit border crossing by mid-2007.
- ☐ A number of Intelligent Transportation Systems (ITS) initiatives have been implemented, such as the installation of new traffic cameras on Highway 3 to improve traffic operations and incident management.
- ☐ Intersection improvements at Highway 3 and Outer Drive/Walker Road are now complete.

Other Borders

- ☐ Moving forward with the federal government to invest $323 million to improve border infrastructure in the Niagara and Sarnia regions.
- ☐ Completed an additional lane on the Queenston-Lewiston Bridge and expanded Highway 405 at the Queenston-Lewiston Bridge.
- ☐ Installed queue-end warning systems at Queenston-Lewiston and Fort Erie.
- ☐ The new Sault Ste. Marie International Truck Route is nearing completion.
- ☐ Construction on QEW Niagara and Highway 401 from Windsor to Tilbury is continuing.
- ☐ Highway 402 improvements near Sarnia are continuing.

Electricity

The government has initiated one of the most ambitious building programs in North America for new electricity generation. It is based on a comprehensive energy plan focused on long-term stability, reliability and sustainability. Investments in a secure and reliable electricity supply and efficient delivery system are required to provide greater price stability and maintain and expand the infrastructure that supports Ontario's modern economy and quality of life.

By 2020, Ontario will need to refurbish, rebuild, replace or conserve approximately 25,000 megawatts (MW) of generation, representing approximately 80 per cent of Ontario's current capacity, to meet the province's demand. The government has moved aggressively to address the critical need for new supply, boost conservation and improve price stability for consumers across Ontario.

Securing Ontario's Electricity Supply

The government has advanced 33 projects and 10 additional initiatives through its comprehensive energy plan to provide the province with over 11,000 MW of supply and conservation and demand management (CDM) over the next five years. This includes the addition of more generation capacity than in any other province or state in North America and, once in service, will provide enough power for about five million homes. The projects and additional initiatives are listed in the next table.

In addition to these 33 projects and 10 initiatives, about 2,250 MW of capacity have come online since October 2003, including Bruce A Units 3 and 4, Brighton Beach, and Imperial Oil.

The 33 projects represent 7,700 MW of new and refurbished capacity and investments totalling about $11 billion. These projects will have a significant effect on the provincial economy. At the peak of construction activity, over 5,000 workers will be directly employed at these projects, plus many thousands more working in factories supplying equipment and materials to them. The 10 additional initiatives, representing 3,500 MW of new capacity and CDM, are expected to have a further positive impact on the economy.

To provide reliable delivery of electricity, Hydro One, the owner of most of Ontario's transmission grid, is also investing to sustain, expand and reinforce its transmission and distribution systems, including a planned $755 million in 2006, plus a minimum of about $600 million per year in subsequent years just to sustain its system.

The government is also pursuing new clean supply initiatives, including a second phase of a Clean Energy Transfer Initiative (CETI) with Manitoba. This would see hydroelectric sites being developed early in the next decade in northern Manitoba, including the 1,250-MW Conawapa hydro development and a major transmission line to bring power to Ontario. In conjunction with Hydro Quebec, Ontario has also made a proposal to Newfoundland and Labrador to develop major hydroelectric generation facilities on the Lower Churchill River. About 945 MW would be dedicated to Ontario.

To encourage smaller-scale, distributed generation in Ontario, the government has passed a regulation on net metering to enable homeowners, farms and businesses generating renewable electricity to receive credit for the excess electricity they produce. In addition, the Ontario Power Authority (OPA) is moving forward with a standard offer program aimed at small-scale generation that will be connected to the lower-voltage distribution system, increasing the availability of renewable power and promoting economic development within communities.

NEW ELECTRICITY SUPPLY PROJECTS

Project	Type	Capacity (MW)	Approximate Number of Homes Powered[2]
Projects Online[1]			
Eastview Landfill Gas	Renewable	3	657
Glen Miller Hydro	Renewable	8	2,102
Melancthon I Wind	Renewable	68	17,739
GTAA Cogen	Gas	90	35,478
Pickering A Unit 1 Return to Service	Nuclear	515	360,912
Projects in Progress			
Loblaws DSM	CDM[3]	10	2,628
York Region Demand Response	CDM	20	5,256
Blue Highlands Wind	Renewable	50	13,009
Erie Shores Wind	Renewable	99	26,017
Hamilton Cogeneration Project	Renewable	2	420
Island Falls Hydro	Renewable	20	5,256
Kingsbridge I Wind	Renewable	40	10,407
Kingsbridge II Wind	Renewable	159	41,706
KEPA Wind Farm	Renewable	101	26,595
Leader Wind A	Renewable	101	26,451
Leader Wind B	Renewable	99	26,017
Manitoba Phase I Power Purchase Agreement (PPA)	Renewable	150	93,294
Manitoba Phase I (PPA – Incremental w/ Upgrade)	Renewable	250	155,490
Melancthon II Wind	Renewable	132	34,690
Niagara Tunnel[4]	Renewable	200	160,000
Prince I Wind	Renewable	99	26,017
Prince II Wind	Renewable	90	23,652
Ripley Wind	Renewable	76	19,973
Trail Road Landfill Gas	Renewable	5	1,314
Umbata Falls	Renewable	23	6,044
Wolfe Island Wind	Renewable	198	51,982
Greenfield Energy Centre	Gas	1,005	396,171
Greenfield South	Gas	280	110,376
Portlands	Gas	550	216,810
Sithe Goreway	Gas	860	339,012
St. Clair Power	Gas	570	224,694
Thunder Bay Gas Replacement	Gas	310	27,156
Bruce A1 & 2 (Bruce Power Refurbishment Implementation Agreement)[5]	Nuclear	1,500	1,051,200
Total		**7,680**	**3,538,526**
Procurements Underway and Planned			
CDM - seven initiatives by the Ontario Power Authority	CDM	1,300	341,640
Renewables III RFP	Renewable	200	52,560
West GTA	Gas	1,000	394,200
Cogeneration	Gas	1,000	700,800
Procurements Underway and Planned Subtotal		**3,500**	**1,489,200**
Total Including Procurements Underway and Planned		**11,180**	**5,027,726**

1 In addition to the 33 projects and 10 initiatives advanced by the government, five projects with about 2,250 MW of capacity came online after October 2003, including Brighton Beach and Bruce Units 3 and 4.

2 Annual household consumption assumed at 10,000 kWh/year. Estimated number of homes based on capacity factors assumed: nuclear at 80 per cent, gas at 45 per cent, renewables at 30 per cent, CDM at 30 per cent, cogeneration at 80 per cent, Manitoba – Phase 1 at 71 per cent

3 Conservation and Demand Management /Response.

4 The Niagara Tunnel project allows more energy to be produced from existing capacity – 200 MW illustrates estimated average annual additional generation of 1.6 TWh.

5 In addition to Bruce A Units 1 and 2, the refurbishment agreement includes investments by Bruce Power on Units 3 and 4 to extend the operating lives of these units.

Note: Numbers may not add due to rounding.

Coal Replacement

The government is moving forward to replace Ontario's coal-fired generation stations — the single-largest greenhouse gas reduction initiative in Canada to contribute to the country's commitments under the Kyoto Protocol. The replacement of the five coal-fired generating stations will reduce Ontario's emissions by up to 30 megatonnes of carbon dioxide a year — comparable to taking almost seven million cars off the road.

In meeting the coal commitment, the government will ensure that reliability comes first. Reliability will not be compromised by the timing of the replacement of the generating stations.

Steps have been taken and initiatives are underway to meet this commitment:

- ☐ The Lakeview coal-fired station — one of the largest point sources of air pollution in the GTA — has already been retired.
- ☐ The coal-fired Thunder Bay Generating Station is being converted to operate on natural gas.
- ☐ The government has put the wheels in motion on initiatives that will support coal replacement, including new generation and supply procurements, conservation, industrial co-generation, and transmission upgrades.
- ☐ The government is also providing $4 million to establish a bio-energy research centre in Atikokan, linked to the Atikokan Generating Station. This centre will help accelerate work now underway on the future use of the station, carry out research of practical relevance to the future of the community and the province, and allow the station to continue to be a source of employment for the community.

Building a Conservation Culture

The government's comprehensive energy plan includes much-needed new supply and a range of conservation and energy-efficiency measures. Conservation, demand response and demand management are integral to a cleaner and more sustainable energy future. The government has set two immediate and measurable conservation targets: a five per cent reduction in projected peak electricity demand in Ontario by 2007, and a 10 per cent reduction in the government's own electricity use by 2007.

Peak electricity demand occurs at the time of day when electricity consumption is highest, leading to pressures on electricity generation capacity and upward pressure on prices. Peak demand can be reduced either by reducing overall electricity consumption or by providing consumers with tools and incentives to change the time of day when they use electricity. To help with this reduction, the government has enacted the Energy Conservation Responsibility Act, 2006, which will enable it to meet its commitment on the installation of 800,000 smart meters in Ontario homes and businesses by 2007, and all homes and businesses by 2010. These meters will give electricity consumers the ability to reduce and shift their electricity demand in response to electricity prices, and will help meet the government's conservation target to reduce projected peak demand in Ontario.

The newly created Conservation Bureau of the Ontario Power Authority (OPA) has been directed to support the Province's conservation objectives by undertaking a number of

specific initiatives and investments. This includes seven major initiatives to reduce electricity use by 1,300 MW across Ontario:

- a 300 MW conservation and demand management (CDM) target in the Toronto area;
- a 250 MW CDM program across Ontario initiated in June 2005;
- a 250 MW CDM program across Ontario initiated in January 2006;
- a 100 MW low-income and social housing program;
- a 100 MW appliance upgrade and efficient lighting initiative;
- a 150 MW CDM program for commercial buildings and the municipal, university, schools and hospital sectors; and
- a 150 MW CDM program for the residential sector to improve, for example, the energy efficiency of home heating, existing air conditioning and appliances in homes.

The government has also asked the OPA to procure up to 1,000 MW of high-efficiency combined heat and power projects across Ontario including industrial co-generation projects and district energy projects.

Building a conservation culture in Ontario is not something that can happen overnight. It will take time, education, partnerships and leadership. All Ontarians can do their part by making small but meaningful changes in their homes, businesses, local governments and institutions that, taken together, will amount to large changes and large savings. The government has worked with electricity local distribution companies (LDCs) to create a website, www.powerwise.ca, to help Ontarians find ways to reduce their electricity demand.

The Independent Electricity System Operator's (IESO) load-reduction program, to be in place before this summer, will create incentives for Ontario electricity users to help meet the reliability needs of the province. This voluntary program will reward participants who commit to reducing electricity consumption by at least one megawatt when the power system is being strained. The IESO anticipates enrolling as much as 500 MW in the program, enough to power over 400,000 homes, or a city larger than Brampton.

The government is more than halfway to meeting its target of reducing its own consumption of electricity by 10 per cent by 2007 by undertaking energy-efficient retrofits and upgrades to government buildings, and by committing to innovative energy solutions such as working with Enwave Energy Corporation on the deep water cooling of the government buildings at Queen's Park.

The OPA will develop an Integrated Power System Plan, in accordance with directions provided by the government. A key element of the plan will be the approach to conservation required to meet the Province's goals.

The government is working to make conservation and energy efficiency a component of everyday thinking by developing policy and working with stakeholders, as well as providing sources of funding for investments in conservation, including the following:

- ☐ The government has enabled electricity local distribution companies (LDCs) to invest over $160 million in conservation in their local communities over three years, including $70 million by six of Ontario's largest LDCs using the powerWISE program. These utilities represent 1.65 million customers or approximately 40 per cent of the electricity customers in Ontario. LDCs have applied for and received approval for conservation program expenditures from the Ontario Energy Board (OEB). By the end of 2005, LDCs had spent $34 million on conservation programs.
- ☐ The Conservation Fund, established by Ontario's first Chief Energy Conservation Officer, will have a budget of $1.5 million in 2006 to fund electricity conservation action and awareness projects.
- ☐ The government has reformed and broadened the Ontario Strategic Infrastructure Financing Authority's mandate to create funding mechanisms for conservation and energy-efficiency improvements in the municipal, universities, colleges, school boards, and hospitals sectors.
- ☐ The Ministry of Natural Resources announced a $150 million Forest Sector Prosperity Fund, which will leverage new capital investment in areas such as energy conservation and cogeneration projects in Ontario's forestry sector.
- ☐ The Ministry of Education provided one-time Energy Retrofit Allocation funding of $25 million for the 2004–05 school year to improve energy conservation in schools, including window, roof and boiler replacements, and insulation upgrades.
- ☐ Improving the energy efficiency of products and equipment available in Ontario by establishing new regulations under the Energy Efficiency Act, including bringing forward a regulation to increase the minimum efficiency level of air conditioners by 30 per cent.
- ☐ The Ministry of Municipal Affairs and Housing is consulting stakeholders on changes to Ontario's Building Code. The Ministry is undertaking a detailed analysis of energy savings that can be achieved by increasing energy-efficiency requirements in buildings for incorporation into Code amendments.
- ☐ The Ministry of Agriculture, Food and Rural Affairs is working with the agri-food sector in providing energy audits and advice on retrofits and demand management, presentations on conservation and green energy, and other initiatives related to conservation and renewable energy.
- ☐ The Ministry of Economic Development and Trade supports innovative energy conservation measures through the Ontario Fuel Cell Innovation Program, the Ontario Automotive Investment Strategy, and energy conservation seminars for small and medium enterprises.
- ☐ The Ministry of Northern Development and Mines has launched the Small Business Energy Conservation Program for northern Ontario's business sector.

Price Stability for Ontario Consumers and Businesses

The government recognizes that predictable and stable pricing will benefit all consumers, and therefore plays an important role in a comprehensive energy plan.

Effective April 1, 2005, the government set an average price of 4.5 cents per kilowatt hour (¢/kWh) on the output of Ontario Power Generation's (OPG) regulated assets, which is reflected in the electricity bills for consumers each month. OPG's regulated assets include its nuclear and large hydroelectric plants, representing approximately 40 per cent of all power generation in Ontario. These regulated price levels are fixed until March 31, 2008, when the Ontario Energy Board takes over setting regulated prices for OPG.

Residential, small business and other eligible consumers also received the Ontario Price Credit this year, a rebate totalling over $500 million from the government's Interim Pricing Plan during the period from April 1, 2004, to March 31, 2005.

Moving forward, the government has also extended and adjusted the transitional revenue limit on most of the output from the rest of OPG's assets, which are not price regulated and otherwise receive the market price of electricity:

- 4.6¢/kWh from May 1, 2006 to April 30, 2007;
- 4.7¢/kWh from May 1, 2007 to April 30, 2008; and
- 4.8¢/kWh from May 1, 2008 to April 30, 2009.

OPG revenues from these non-price-regulated assets that are above these limits will result in a rebate issued quarterly, which ensures that the rebate benefits businesses and households as quickly as possible.

Together, the regulation of OPG's nuclear and large hydroelectric assets and the extension of the transitional revenue limit are an important part of improving electricity price stability for all Ontario's consumers, thereby enhancing the competitiveness of Ontario's economy and promoting a more prosperous Ontario.

Municipal Water and Wastewater Infrastructure

Water and wastewater systems are crucial components of the province's infrastructure. Ensuring the provision of clean, safe drinking water is a priority of the McGuinty government. The government also recognizes the need to ensure the long-term economic sustainability of the province's municipal water and wastewater systems. The government appointed an expert panel in August 2004 to recommend ways to ensure that needed investment in Ontario's municipal water and wastewater systems takes place, that systems are financially sustainable, that rates are affordable, and that systems remain in public hands.

In July 2005, the Water Strategy Expert Panel's report, "Watertight: The Case for Change in Ontario's Water and Wastewater Sector," was released. The report indicated that the investment needs for water and wastewater systems will be $30 billion to $40 billion over the next 15 years.

The government is carefully reviewing the expert panel's recommendations and will be responding in the coming months.

Innovative Infrastructure Project Financing

The government is making greater use of innovative financing to move forward with needed infrastructure projects in a fiscally responsible way. For example, the Ontario Strategic Infrastructure Financing Authority (OSIFA) provides Ontario's municipalities and other public-sector partners with innovative low-cost loans to finance priority public infrastructure projects.

In November 2005, Ontario established Infrastructure Ontario as a new Crown agency responsible for managing Ontario's major infrastructure projects, using alternative financing and procurement methods. It is responsible for ensuring that public infrastructure projects are delivered on time and on budget using private-sector expertise in financing and project management. The government plans to introduce legislative changes, that, if passed, would amalgamate OSIFA with Infrastructure Ontario, allowing for better coordination of the government's infrastructure financing activities.

Ontario Strategic Infrastructure Financing Authority (OSIFA)

To date, OSIFA has committed to provide more than 190 municipalities in Ontario with access to $2.4 billion of low-cost infrastructure financing. These loans will help communities invest in over 1,200 critical public infrastructure projects such as clean water infrastructure in Marathon, road improvements in Lanark County and a new long-term care home in St. Thomas.

As part of the government's commitment to support and develop education in Ontario, OSIFA loans are now available to Ontario universities. For example, universities that want to build or renew research facilities or student residences now have an additional source of financing.

As well, in response to requests from municipalities and universities, the Minister of Public Infrastructure Renewal has announced the introduction of a continuous call for OSIFA infrastructure loan applications. This means that municipalities and universities can now apply for an OSIFA infrastructure loan when financing is needed, rather than waiting for a call for applications to open. This change offers all Ontario municipalities and universities even more access to OSIFA's low-cost, long-term, fixed-rate financing.

Section II: Building Research, Commercialization and Innovation

Research, commercialization and innovation create the opportunity for advancement. In a competitive global environment, Ontario's future prosperity will increasingly depend on the economy's ability to innovate. More specifically, it will depend on how well Ontario's industries are able to compete by producing new, higher-value products and services.

To strengthen and promote Ontario as an innovative economy, the Ministry of Research and Innovation is investing nearly $1.7 billion over five years to 2009–10 through research, commercialization and outreach programs. This total includes the following new initiatives announced in this Budget:

- $100 million for the Perimeter Institute for Theoretical Physics and the Institute for Quantum Computing in Waterloo;
- $17 million for three new awards to recognize new research and innovation talent;
- $25 million for the establishment of the Premier Summit Awards program to support excellence in medical research;
- $16.2 million to support the development of Phase II of the MaRS Discovery District; and
- $160 million to accelerate commercialization and the growth of innovative startups.

This investment is guided by a vision of an Ontario with a flourishing culture of innovation, where creativity is sustained, engrained and cultivated in every sector, and in every activity. The goal is to create an environment in which innovation is inevitable.

To implement this vision, the government is investing in the next generation of research talent, and supporting commercialization and the growth of entrepreneurial and investment talent. These are the people with the skills and drive to make world-first discoveries and the people who understand the commercial value of a new discovery and how to bring it to market.

Ontario offers many competitive advantages for innovative enterprises, including talented scientists and engineers; a highly skilled and diverse workforce; competitive taxes and research and development (R&D) tax incentives; and excellent infrastructure. While industry must play a leading role in innovation, the provincial government has an important role in helping to create a supportive environment for new ideas to emerge and grow into profitable ventures.

The creation of a new Ministry of Research and Innovation, led by Premier McGuinty, demonstrates that innovation is a top economic priority for the Government of Ontario. The government will also benefit from the advice and expertise of the new Ontario Research and Innovation Council, headed by Adam Chowaniec, a leading business innovator and founder of Ottawa-based Tundra Semiconductor.

Growing the Next Generation of Research and Innovation Talent

Research is a fundamental source of new ideas — the raw material of innovation. Ontario's researchers produce some of the best science in the world. To compete with researchers in other parts of the world, they need sustained public support. The Ontario Government is providing $100 million to two top research facilities to help produce the ideas and the people that will help place Ontario at the forefront of the next technology revolution:

- $50 million for the Perimeter Institute for Theoretical Physics in Waterloo. The institute was launched in October 2000 with a mandate to pursue research in foundational theoretical physics. Research in Motion President and co-CEO Mike Lazaridis and his wife Ophelia helped start the institute with a $100 million donation, to which they recently committed an additional $50 million; and
- $50 million for the University of Waterloo's Institute for Quantum Computing. The institute was established in 2002 to focus groundbreaking research into tackling large computations and complex mathematical problems at the atomic level. It has also benefited from a $50 million donation by Mr. and Mrs. Lazaridis.

The government and the new Ontario Research and Innovation Council will continue to look at ways of strengthening Ontario's research capacity, including the potential for establishing more federal research facilities in the Greater Toronto Area — the only metropolitan area in Canada without a National Research Council laboratory.

Ongoing Support for Research Excellence

The Ministry of Research and Innovation continues to provide support for research and research talent in Ontario's public institutions through the following funding programs over five years to 2009–10:

- $715 million in new and existing commitments consolidated under the Ontario Research Fund. Launched in May 2005, the new Fund provides operating, overhead and capital funding to support leading-edge R&D in Ontario's universities and hospitals, and leverages support from the federal government and private industry.
- $286 million for cancer research under the Ontario Cancer Research Network and the new Ontario Institute for Cancer Research. The first of its kind in Canada, the new institute will bring together researchers from across the province to collaborate on complex projects aimed at preventing, managing and eliminating cancer.
- $51 million for the Research Talent Development Program, which provides support for early career researchers with recognized potential, and links internationally trained researchers to their fields of expertise in Ontario.

The increased funding that the government is providing to postsecondary education strengthens the quality of education provided and the quantity and quality of research talent that enters the workforce. Ontario's secondary-school students are among the world's highest achievers in science and mathematics. Science and engineering constitute a significantly higher share of degrees awarded by Ontario universities than is the case in the United States.

To enhance these advantages into the future, the Ministry of Research and Innovation is providing $17 million for three new awards programs aimed at recognizing and rewarding Ontario's next generation of research and innovation talent:

- five annual "Innovators Awards" of $200,000 to researchers who have demonstrated excellence in innovation and entrepreneurship;
- four annual "Senior Researcher Awards" totalling $1.5 million to recognize achievement in life sciences and medicine, natural sciences and engineering, social sciences, and innovation leadership; and
- 40 annual $50,000, two-year fellowships matched by institutions awarded to post-doctoral students, who play an important role in academic research teams as contributing scientists and as mentors to graduate students.

As well, to recognize and support excellence in medical research in Ontario, the government proposes to establish the $25 million Premier Summit Awards program.

Accelerating Commercialization and the Growth of Risk Capital Investment

Innovation happens when researchers with good ideas work with entrepreneurs and businesses that turn these ideas into new products and services for the marketplace. Fostering a culture of innovation takes more than just research talent — it also takes investment talent. Innovative firms need capital from investors who are prepared to take on higher risks in pursuit of higher returns.

From Idea to Market

Through sustained public investment, Ontario has established a strong academic base for world-class research. To harness the economic and social benefits of this investment, the provincial government also encourages academic-industry research partnerships and the commercialization of new technologies.

- ☐ The government is providing up to $64 million over five years to enable public institutions to build their technology transfer capacity and to identify and commercialize promising inventions.
- ☐ A total of $171 million is being invested over five years in Ontario Centres of Excellence (OCE) Inc., which is world renowned for its great track record connecting innovative science with risk-taking investors.

The government is also providing support for the Medical and Related Sciences (MaRS) Discovery District in Toronto, the McMaster Innovation Park in Hamilton, and the Waterloo Research and Technology Park. Complementing these investments is a coordinated system of 11 regional innovation networks across the province. These networks are multi-stakeholder organizations established to support partnerships among business, institutions and local governments to promote innovation.

The government is supporting the development of Phase II of the MaRS Discovery District with an additional contribution of $16.2 million.

The government is providing $4 million to establish a bio-energy research centre in Atikokan.

The government is providing $10 million to Laurentian University to support the recent launch of the new Centre for Excellence in Mining Innovation in Sudbury.

It is when an innovative firm is in its startup stage that it most needs capital to survive and grow. Average survival rates for startups are quite low, often because they lack the business skills to attract and partner with investors.

Compared to the United States, however, returns on venture capital investment in Canada have been low. This has inhibited the growth of larger pools of capital that would meet the needs of fast-growing companies. As well, Ontario lags the United States when it comes to encouraging angel investors — individuals with personal capital to invest, who also provide hands-on business advice and help prepare young companies for follow-on investment by venture capital funds.

To accelerate commercialization and growth of innovative startups, the Ontario Government is investing new funding totalling $160 million over the next four years, including:

- $46 million to help startups become more investor-ready by acquiring business management and entrepreneurial skills and to help them move a product or service idea further along the commercialization process, from the technical feasibility stage into the market feasibility stage;
- $90 million to invest in early-stage Ontario-based innovative firms in partnership with venture capital funds, pension funds and the federal government; and
- $24 million to encourage the development and commercialization of new bio-based, environmental and alternative energy technologies.

Details of these initiatives will be announced later in 2006 by the Ministry of Research and Innovation. The government will also introduce legislation to transfer full responsibility for the Ontario Commercialization Investment Funds program to the Ministry of Research and Innovation.

Encouraging More Business Investment in Research and Innovative Technologies

Because of its market orientation, industrial research and development (R&D) is an important driver of innovation and technology adoption by business. More broadly, it benefits the economy by boosting productivity and increasing the demand for highly skilled scientists and engineers.

The Ontario Government encourages business investment in research and innovative technologies in several ways.

- The combination of provincial and federal R&D tax incentives has helped make Ontario one of the most attractive places in the world for business to perform R&D. In addition, the government supports business innovation by encouraging partnerships and collaboration between firms and public institutions.
- The government is providing direct support to encourage business investment in research and innovation in strategic sectors such as automotive manufacturing, forestry and agriculture.
- The recently announced Advanced Manufacturing Investment Strategy will provide $500 million in repayable loan funding over five years to promote investment and job creation in Ontario in leading-edge technologies and processes.
- Public policies and investments in education, health and the environment are important for promoting business investment in innovation. Policies that promote energy conservation, for example, encourage companies to adopt innovative, productivity-enhancing practices that help protect the environment.

Immigrant Investor Funding to Support Innovation and Job Creation in Ontario

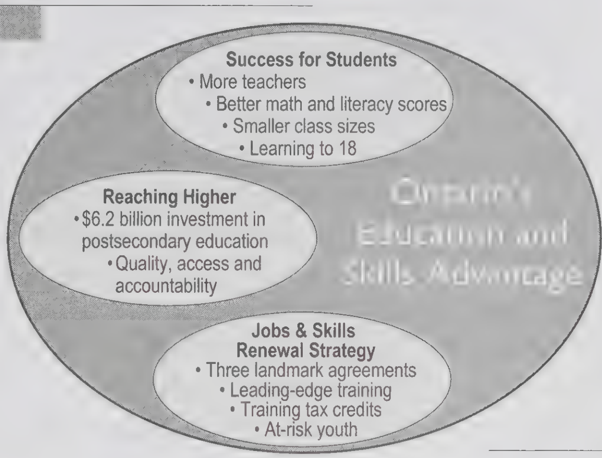
The Ontario Immigrant Investor Corporation (OIIC) receives a share of the funds invested by immigrants through the federal government's Immigrant Investor Program. Consistent with the objectives and conditions of the program, the OIIC will invest to support Ontario's plan to promote economic development and higher living standards.

In particular, the OIIC intends to use a portion of the funds available to support the Ministry of Research and Innovation in its efforts to assist Ontario start-up companies to become more investor ready.

Section III: Building Ontario's Education and Skills Advantage

In today's knowledge-based economy, education and skills are the prerequisites for growth and prosperity in the 21st century. Seventy per cent of all new jobs in the future will require some form of postsecondary education. Ontario will only be at its best when every Ontarian has the opportunity to achieve his or her potential.

The Government of Ontario views investments in people and a skilled workforce as a cornerstone of its economic strategy. That is why the government has moved swiftly to make comprehensive investments in education, with a plan at each critical stage. In the past two years, the government has announced billions of dollars in new investment to prepare young people for the jobs of tomorrow.



Ontario's investments address the education and training needs of all learners. They start in the early years and proceed through elementary and high school to studies at the postsecondary level and skills training in the workplace, supporting new approaches and achieving tangible results. Highlights include:

- smaller class sizes, better math and literacy scores, and fewer students dropping out of high school;
- investing $6.2 billion in Ontario's colleges, universities and training systems by 2009–10 to improve access, quality and accountability as announced in the Reaching Higher plan;
- encouraging workplace training through the Apprenticeship Training Tax Credit, and providing greater opportunity for immigrants through the Bridge Training and International Medical Graduate programs;
- developing a new Jobs and Skills Renewal Strategy with support from the signing of three landmark Canada–Ontario agreements that significantly expand resources for immigration services and skills training for Ontarians; and
- creating a new Youth Challenge Fund to support community-led programs that give at-risk youth opportunities for greater success.

The government's plan for all stages of education will strengthen Ontario's knowledge and skills advantage and improve its competitive position.

SUCCESS FOR STUDENTS

Strong public education is the foundation for a strong economy and a cohesive society.

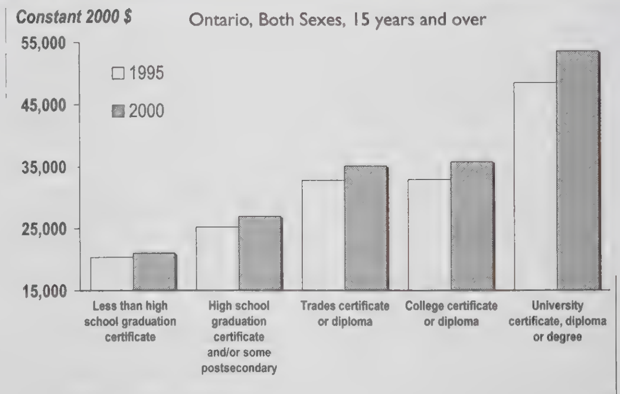
Children need the best start in life to achieve their full potential. To support its Best Start vision, Ontario signed the Early Learning and Child Care (ELCC) agreement with the federal government in 2005, an agreement that was to provide Ontario with $1.9 billion over five years. Regrettably, the new federal government has given notice to terminate this agreement.

Given the elimination of federal ELCC funding after 2006-07, the Province will use the final federal payment to support the child care system. The government is allocating $63.5 million per year over the remaining life of the original agreement, from 2006–07 to 2009–10. The Province will also work with municipalities to continue to urge the federal government to reconsider and honour the ELCC agreement.

Investments at the elementary and secondary level are resulting in greater success for students. To help achieve its key results, the government has already funded an additional 4,300 elementary and secondary school teachers. The government's elementary school priorities are to reduce class sizes and reach high levels of achievement in literacy and math for every student before age 12. Students and schools are getting new resources, including 600 specialist teachers in 2005–06 to help struggling students and to teach physical education, music and the arts, and turnaround teams of experts in literacy and math.

At the secondary level, the government's priority is to increase the high school graduation rate to 85 per cent by 2010 through its Learning to 18 strategy. The government has already provided new resources to hire 1,300 additional teachers. Ontario's high school graduation rate, while increasing, is still unacceptably low at about 72 per cent.

Average Income by Educational Attainment



Source: Statistics Canada, 2001 Census.

The Learning to 18 initiative is essential to the government's commitment to opportunity. New efforts to increase the high school graduation rate will generate long-term benefits, including better employment opportunities, enhanced earning capacity, improved cognitive and literacy skills, and broader social networks.

Providing Opportunity for At-Risk Youth

Strong and safe communities support a cohesive society, strengthen economic growth, and improve opportunities for the most vulnerable youth, especially those at risk of engaging in violent behaviour.

The Government of Ontario is committed to making the province's communities safer and to creating opportunity for at-risk youth. Fighting gun violence requires being tough on crime and strong on enforcement. In January 2006, the government announced a $51 million investment, including new funding to give police and Crown prosecutors additional resources to investigate and prosecute gun crimes.

Making communities safer and reducing gun violence also means tackling the root causes of crime through preventive strategies that directly help youth in their neighbourhoods. Young people at risk of joining gangs and engaging in criminal activity must be offered positive alternatives that strengthen their connection to the community and invest in their future.

The Learning to 18 strategy is a key part of the government's plan to help at-risk youth. Ontario has taken other action in its schools, including a three-year, $23 million Bullying Prevention Strategy and $20 million annually for the Community Use of Schools program to help school boards open up gymnasiums and other facilities to non-profit groups after school hours.

In February 2006, the government enhanced its preventive strategy by announcing a Youth Challenge Fund for at-risk youth. Chaired by Toronto Argonauts head coach Mike "Pinball" Clemons, the fund will initially provide $15 million in new resources to local communities in Toronto. The government has committed an additional $15 million over three years to match contributions by the private sector, for a potential total investment in at-risk youth of $45 million. Community organizations will be able to apply to the fund to cover the costs of programs that engage youth in activities that enhance their opportunity to succeed at school and participate in postsecondary education, training and employment.

In addition, the Province has recently announced more than $28 million in the first three years of a new Youth Opportunities Strategy. The investment will support the hiring of youth outreach workers and other employment and training opportunities in at-risk communities, starting in Toronto and expanding across the province in 2007–08, including Windsor, Ottawa, London, Hamilton and Thunder Bay.

Youth Challenge Fund

- ☐ $15 million initial government funding plus up to $15 million to match private-sector contributions, for a total fund of up to $45 million.
- ☐ The fund will:
  - focus on identification, prevention and early intervention;
  - engage youth in activities to help them succeed such as learning, sports, mentoring and tutoring, and job experience;
  - provide a lever to stimulate community involvement; and
  - support community-based solutions.

Ontario supports many other preventive and remedial programs critical to youth success. Examples include the $111 million annual youth employment and training program called Job Connect and a $15 million Academic Upgrading investment by 2007–08 that assists those who leave school early to improve their skills and labour-market readiness, largely through colleges. The Province also spends $22 million annually to provide community alternatives to custody programs for youth in conflict with the law. The ACTIVE2010 strategy invests $12 million in promoting sport and physical activity, and $5 million in the Communities In Action Fund. Part of this strategy is to remove barriers to sports and recreation for low-income youth and children. A $2 million program supports healthy development of urban Aboriginal children.

Reaching Higher: A Historic Investment in Postsecondary Education

The government's postsecondary plan is strengthening Ontario by strengthening its most important competitive advantage — its people.

As announced in the 2005 Budget, Reaching Higher is a new cumulative investment in postsecondary education of $6.2 billion. This includes a 35 per cent increase in operating funding by 2009–10 compared to the 2004–05 funding base and doubling of funding available for student aid.

Reaching Higher is a historic multi-year investment — the largest in 40 years — one that will translate into a competitive advantage, economic growth and a higher standard of living for Ontarians.

The government's Reaching Higher investments are tied to performance and results. The Reaching Higher plan:

- ensures access for every qualified Ontario student, resulting in a higher postsecondary participation rate;
- improves access to and success in postsecondary education for traditionally underrepresented groups;

- assures quality teaching and an improved student learning experience, including better interaction between faculty and students;
- enhances the learning infrastructure such as libraries and laboratories;
- enrols 14,000 more graduate students by 2009-10, creating knowledge and ideas for economic growth and maintaining Ontario as a North American leader in research and innovation;
- will graduate more doctors through a 23 per cent expansion of first-year medical education spaces, including a new Northern Ontario School of Medicine;
- enables thousands more new Canadians to contribute their skills to Ontario's economy;
- strengthens the public reporting of system-wide outcomes; and
- results in a high-quality postsecondary education system able to compete with the best in the world.

In 2006–07, the government is continuing to implement the Reaching Higher plan. The next phase of the plan introduces further enhancements to student assistance and a new regulated tuition framework that balances access and quality.

The government will:

- implement additional enhancements to student financial assistance for 2006–07 and beyond by increasing loans and grants for low- and middle-income students and ensuring debt levels are manageable and predictable, benefiting 145,000 students. These enhancements will:
  - make tuition Access Grants available to students from middle-income families, by more than doubling the income threshold for a family with two children from about $35,000 to $75,000, benefiting 27,000 more students, bringing the total number of beneficiaries to nearly 60,000 in September 2006;
  - raise book and supply allowances for the first time since the mid-1980s so that 75 per cent of student aid recipients will have their actual book costs covered, compared to 13 per cent previously, benefiting 138,000 students;
  - continue to ensure that student debt is limited to $7,000 per completed year through the Ontario Student Opportunity Grant;
  - implement a new "Access Window" website in 2007–08 to allow students to identify costs and all sources of financial aid in the institution and program of their choice;
- introduce a regulated tuition framework starting in 2006 under which each institution will be held to an average five per cent overall increase in tuition per year and will be required to demonstrate improvements in quality and access;

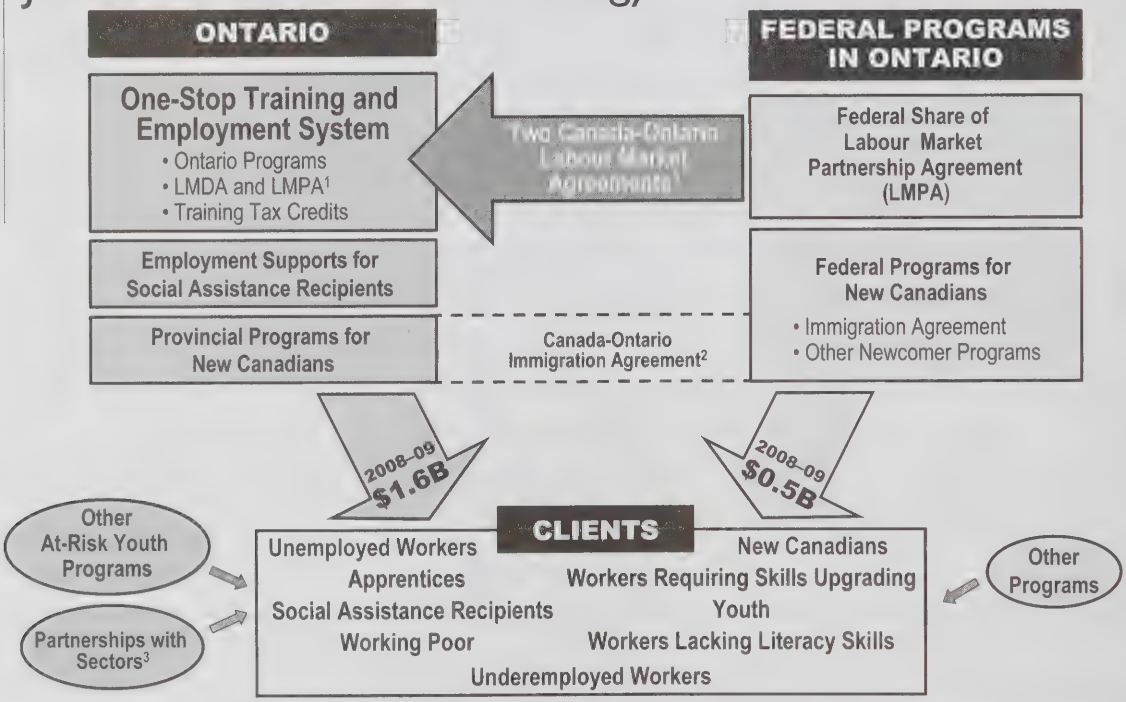
- under the plan, average tuition increases for the coming year will be limited to about $100 for almost 90 per cent of college students and about $200 for almost 70 per cent of university students.

Reaching Higher is committing $55 million by 2009–10 to improve access to postsecondary opportunities for those traditionally underrepresented. Committees have been put in place to advise on how best to achieve this goal for Aboriginal Peoples, persons with disabilities and those who would be the first in their families to attend college or university. Similar efforts will help the francophone population gain better access to postsecondary education.

Jobs and Skills Renewal Strategy

The Ontario Government is committed to ensuring that the province has the highly skilled workforce needed to attract jobs and investment and maintain a skills advantage. The government has a comprehensive framework, the Jobs and Skills Renewal Strategy, that provides skills training and other labour-market services so that people can find work and contribute to strong economic growth. The strategy builds on Ontario's One-Stop Training and Employment System, and brings new tools and new resources to

Jobs and Skills Renewal Strategy



[1] Labour Market Development Agreement, $582 million transferred annually by 2007–08, and Labour Market Partnership Agreement, $314 million annually by 2009–10, half to be delivered by the federal government.
[2] Immigration Agreement of $320 million annually by 2009–10, to be delivered by federal government.
[3] Includes training investments under the Ontario Automotive Investment Strategy and the Advanced Manufacturing Investment Strategy.

address worker and employer labour-market and training needs. It ensures that workers have up-to-date skills to secure good jobs and that the unemployed, the underemployed, new Canadians, the working poor and social assistance recipients have greater opportunity to reach their potential.

Total funding under this strategy to help Ontarians do better in the labour market will be $2.1 billion annually by 2008–09, including $1.6 billion in programs provided by Ontario and $0.5 billion in programs provided to Ontarians by the federal government.

The development of the comprehensive Jobs and Skills Renewal Strategy and increased funding for training and employment programs are the direct result of three landmark agreements covering immigration and labour-market services signed with the federal government in November 2005. Some of the funding from the agreements will be transferred directly to Ontario and some will be delivered to Ontarians by the federal government.

Resources for Ontarians from Canada-Ontario Labour-Market and Immigration Agreements

Agreement	[illegible]	[illegible]
Labour Market Development (LMDA)	$582 million	100%
Labour Market Partnership (LMPA)	$314 million	50%
Immigration	$320 million	0%

The new and transferred resources under the agreements will accelerate the expansion and improvement of Ontario's programs, and, along with enhanced federal services negotiated by Ontario, will mean more and better service for Ontarians. Ontarians will benefit from integration of services and from reduced duplication and streamlined program delivery through a one-stop approach, making it easier for them to find the programs they need. The goal is to provide smooth and straightforward access to services for a diverse range of clients.

A workforce that has good literacy and numeracy skills and keeps all skills up-to-date through lifelong learning is essential in a modern economy. The government funds classes for Ontarians with poor literacy in community settings, in college classrooms and in workplaces. The Canada–Ontario agreements on immigration and labour-market services give high priority to new approaches to literacy training and higher-level language training to enable new Canadians to participate fully in their trade or profession.

Services under Jobs and Skills Renewal Strategy

- ☐ Unemployed Ontarians, the working poor and new Canadians will get rapid re-employment services, retraining, comprehensive counselling services and good labour-market information.
- ☐ Young people who have not completed high school or further education will get counselling and remedial education and training, including apprenticeship, that qualifies them for better jobs.
- ☐ Employers will get more skilled trades workers and young people will get more apprenticeship training opportunities.
- ☐ Employers will benefit from sectoral training partnerships and skills investments.
- ☐ Employed workers and professionals will get retraining opportunities as technology changes.
- ☐ Ontarians with poor literacy skills will get literacy and numeracy classes.
- ☐ Underemployed new Canadians will get English or French-as-a-Second Language programs and bridge training that qualifies them to work in their profession or trade.
- ☐ Ontarians receiving social assistance will benefit from work opportunities, training and incentives to help them get back to work.
- ☐ Students will get help obtaining summer jobs to give them necessary earnings and job experience.
- ☐ A pilot for a "No Wrong Door" approach to service delivery was launched by Ontario in January 2006.

With the Jobs and Skills Renewal Strategy, Ontario now has in place comprehensive plans to create learning opportunities for all people at all stages of their lives. Together with Success for Students and Reaching Higher, this strategy will ensure that all Ontarians can reach their potential and will keep Ontario competitive with the best in the world.

Selected Training Initiatives and Results

Commitments:	Results to Date:
☐ Over $100 million annually to support apprenticeship as well as an Apprenticeship Training Tax Credit to encourage employers to hire more apprentices. The credit provides up to $15,000 over the first three years of an eligible apprenticeship.	☐ On target to achieve 21,000 new registrations in 2005–06 and to increase new entries to 26,000 per year by 2007–08.
☐ $15 million annually by 2007–08 for new academic upgrading and training options for those who leave high school early.	☐ Nearly 1,700 at-risk youth and adults are participating at colleges. Will serve 6,000 by 2007–08.
☐ $21 million in 2005–06 to expand Bridge Training and other employment services for new Canadians to enter the workforce.	☐ More than 6,000 people have participated in over 56 Bridge Training projects in professions such as nursing and pharmacy. Enhanced language training provided for 3,000 people. Information and referral provided for 5,000 clients and more intensive employment services provided for 650 clients through Job Connect.
☐ $20 million by 2007–08 for other new services for new Canadians and prospective apprentices.	☐ Pilots to help immigrants in colleges and to encourage employers to better recognize the skills of new Canadians are underway. 21 organizations are receiving funding to expand bridging programs.
☐ $27 million in 2005–06 for the International Medical Graduate (IMG) program.	☐ Up to 200 opportunities per year, up from 90 in 2003, for internationally trained physicians to be assessed and trained in family medicine and needed specialty areas.
☐ $4.5 million in 2005–06 for scholarships/employer bonuses for those leaving high school early and entering apprenticeship.	☐ 425 individuals are on track to receive scholarships after completing upgrading or registering as an apprentice; an additional 125 individuals have already completed.
☐ $63 million for the Literacy and Basic Skills program.	☐ 46,000 participants in 2005–06.
☐ $51 million for the ESL/FSL program.	☐ About 20,000 enrolled in 2005–06.
☐ $111 million for the Job Connect program for labour-market training and support services.	☐ 129,000 people, largely youth, were served in 2005–06. 78 per cent find a job or go on to further education and training.
☐ $52 million for the Ontario Summer Jobs program.	☐ 61,000 young people found summer jobs or started their own businesses in 2005.
☐ $219 million in 2005–06 for employment assistance programs for social assistance recipients.	☐ There are about 200,000 participants in employment assistance activities annually.
☐ JobsNow pilot project in six communities to help social assistance recipients.	☐ There have been over 2,000 job placements since the pilot began.

Section IV: Building Ontario's Health Care Advantage

Medicare is an important part of Ontario's economic advantage because it lowers costs to business and supports the productivity of Ontario's workforce.

Rising health care costs are a source of concern for business and governments across North America. Ontario's publicly funded health care system provides a solid base of services that eases the pressure on firms to purchase these critical benefits for their employees. This provides a valuable advantage for Ontario in competing for jobs against U.S. jurisdictions, especially in manufacturing sectors such as automotive, where the cost of health benefits is cited as harming U.S. competitiveness.

A strong, sustainable health care system also contributes to Ontario's economy because a healthy labour force loses less time to illness and injury and is more productive on the job. To sustain and enhance this advantage, it is critical to treat illness and injury as effectively as possible, and to work with Ontarians so that they have the information and tools they need to engage actively in maintaining their good health. The government's commitment to promoting healthy and active living is demonstrated by the historic creation in June 2005 of a new Ministry of Health Promotion and by initiatives such as ACTIVE2010 and the Communities In Action Fund (CIAF), which support physical activity and participation in sports.

To sharpen the province's competitive edge, the Government of Ontario continues to invest in improvements to both the quality and availability of health care such as:

- longer funded hours of operation for medical diagnostic equipment, including magnetic resonance imaging (MRI) machines;
- more cancer and cataract surgeries, cardiac procedures, and hip and joint replacements;
- increasing the number of Family Health Teams (FHTs) to 150 to provide access to primary health care services for approximately 2.5 million Ontarians. So far, the government has created 100 FHTs across Ontario and will announce the remaining 50 in 2006–07; and
- investments in hospitals and Community Health Centres.

Investing in Ontario's Health Care Professionals

Stable access to a family doctor is an important contributor to the quality of life in a community and is critical to that community's ability to attract skilled workers. In response to the shortage of doctors in Ontario, the government is working to expand the supply of these health professionals with initiatives such as:

- ☐ creating 104 new first-year spaces at medical schools, including at four new university campuses. This is in addition to the 56 new medical spaces created in 2005 by the opening of the Northern Ontario School of Medicine; and
- ☐ ongoing support for the International Medical Graduate (IMG) program that provides training, assessment and support to help internationally trained physicians become registered and practise in Ontario.

Measures are also underway to increase the supply of other health care professionals, whose work helps provide high-quality health services. For example,

- ☐ more than $51 million to improve access to maternity services for women, including support for 356 registered midwives;
- ☐ the government introduced the Traditional Chinese Medicine Act. If passed, this act would ensure that Ontarians who choose this approach to health care will be able to identify qualified professionals; and
- ☐ a comprehensive Nursing Strategy that acknowledges the key role of nurses in quality health care and increases the supply of nursing professionals in Ontario through investments such as the New Graduate, Late Career, Clinical Simulation Equipment and Grow Your Own Nurse Practitioner initiatives.

A full description of the government's strategy for improving Ontario's health care system is presented in Paper A, *Building Opportunity, Building a Stronger Ontario.*

Section V: Building Job Creation and Ontario's Sector Advantages

The Province's economic strategy is built on the fact that a highly skilled, well-educated workforce and a diverse economy, coupled with modern economic infrastructure, are essential to economic growth today and in the future. A $1.2 billion investment in public transit, roads and bridges on top of the five-year, more than $30 billion ReNew Ontario infrastructure investment plan; one of the most ambitious building programs in North America for new electricity generation; education investments from junior kindergarten to the end of high school; the $6.2 billion Reaching Higher plan for postsecondary education; a comprehensive Jobs and Skills Renewal Strategy; health investments that are producing results; a new Ministry of Research and Innovation making substantial investments in research and commercialization — all are providing Ontario's economy with what is needed in order for it to grow and create jobs.

The strategy is paying off — more jobs are being created and for the most part these are good, full-time and higher-paying jobs. Every job that is created represents an opportunity for an Ontarian and for an Ontario business.

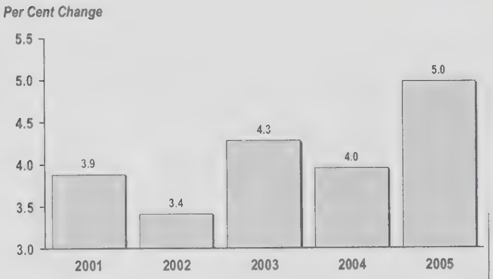
Ontario Employment Continues to Grow

In 2005 — a year that saw the Canadian dollar and oil prices continue to rise — 81,200 net new jobs were created in Ontario, bringing the total number of net new jobs created since October 2003 to almost 200,000.

Ontario's unemployment rate fell to 6.6 per cent, the lowest annual rate since 2001.

A Healthy Labour Market

Ontario Labour Income



Source: Statistics Canada.

Ontario Unemployment Rate

Source: Statistics Canada.

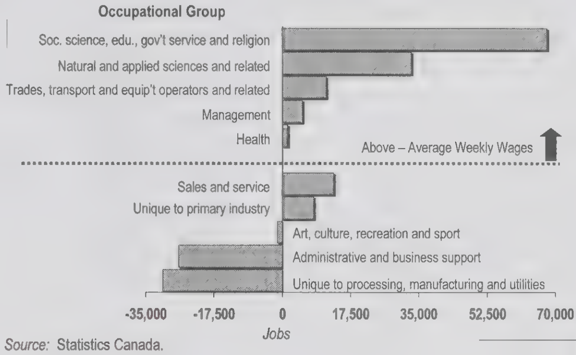
Strong Job Growth in Higher-Paying Occupations

The nature of Ontario's job creation over the last year has also been very positive. Almost 90 per cent of the 81,200 net new jobs created last year were full-time positions. As well, total wages and salaries earned by Ontario workers grew 5.0 per cent in 2005 — the best annual increase in five years.

In 2005, a significant majority of net new jobs were in higher-paying, knowledge-intensive occupations that are so important to future economic growth in the province.

In 2005, occupations with above-average weekly wages had strong job growth. These included jobs in management, sciences, education, government, transportation and health.

Job Creation by Major Occupational Group, Ontario, 2005



Source: Statistics Canada.

Ontario's Service Economy

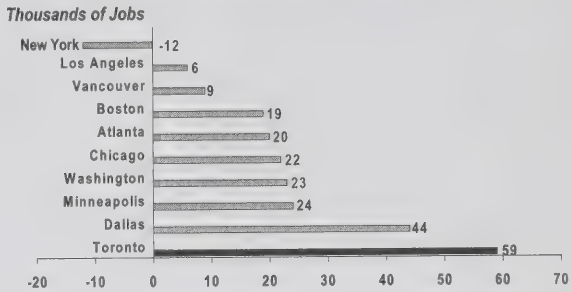
Service sector industries in Ontario are growing fast and account for an increasing share of provincial employment and output. In 2004, service sectors contributed about $302 billion to Ontario's economy (roughly 70 per cent of GDP). In 2005, employment in Ontario's services industries in the private sector totalled approximately 3.4 million workers, roughly 53 per cent of total employment in the province.

Ontario is home to a number of highly successful, higher value-added services sectors, such as the finance, insurance and business services sectors and the information and communication technology (ICT) sector, which includes industries such as software development and telecommunication services.

TORONTO LEADS NORTH AMERICA IN FINANCIAL SERVICES JOB CREATION

Toronto's financial services sector is the third largest in North America, and created more jobs than the financial sector of any other North American city over the past 10 years. Contributing to its strength is the high level of professional skills and advanced education of its workers, a modern communications infrastructure, and a supportive regulatory framework. Workers in financial services earn 26 per cent more than the all-industry Ontario average.

Financial Sector Job Creation — Top 10 North American Cities (1996–2005)[1]



[1] The graph includes North American cities with the highest finance and insurance employment.
Sources: Statistics Canada, U.S. Bureau of Labor Statistics and Ontario Ministry of Finance.

- Toronto is a major location for business and financial head offices in Canada. This contributes to high-wage jobs in related areas such as legal, accounting and computer systems.
- 72 per cent of financial services employees in Toronto have postsecondary designations, compared to 58 per cent for other industries.

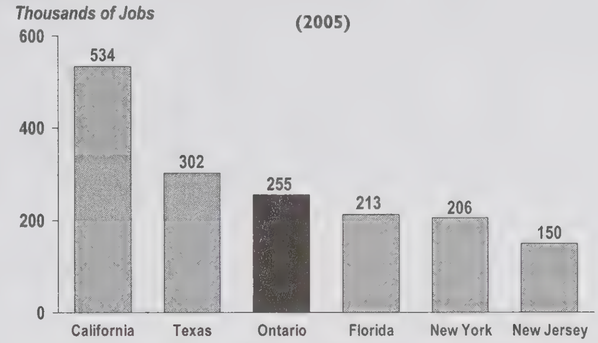
Higher value-added services — so important to higher employment and incomes in developed economies — are characterized by high levels of specialized knowledge and skills. Investments in education, training and postsecondary education provide the foundation for generating the needed skills in an economy. Investments in research and innovation fuel the technological and creative breakthroughs that create the new products and services that achieve market success. Investments in economic infrastructure, including public transit investments, help build communities with the high quality of life that attracts investment and bring together the creative and knowledge workers critical for high value-added industries.

Information and Communications Technology Services Contribute to High Value-Added Jobs

Because nations are increasingly competing on the basis of knowledge, skills and R&D, Ontario's strengths in high value-added services sectors, such as information and communications technology (ICT), are helping it to grow and prosper. Ontario has become home to the third-largest ICT services sector in North America (based on employment) in areas including computer software and telecommunications. Computer software workers earn 69 per cent more than the all-industry average, and telecommunications workers earn 24 per cent more.

- ☐ Over the past 10 years, ICT services employment has grown faster in Ontario than in the United States and the rest of Canada.
- ☐ Ontario has a strong skills base. 75 per cent of the ICT goods and services sector's workforce have completed a postsecondary education, compared to 59 per cent of the ICT sector in the United States.

Information and Communications Technology Services
Ontario Third-Largest Employer in North America[1]



[1] ICT services include computer software, telecommunications, internet and data processing services and computer hardware and software wholesaling.
Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

Major U.S. corporations are increasingly outsourcing ICT services to other countries such as India, but Canada remains attractive as a major near-shore outsourcing location. Canada is one of the top four beneficiary countries from U.S. outsourcing.

Ontario's job performance will also benefit from the government's support of key economic sectors, both those with rapid growth potential and those adjusting to global economic pressures.

Section VI: Building Communities and Key Economic Sectors

The province's diverse communities and key economic sectors have an important role in building a culture of innovation, producing a positive business environment, enhancing quality of life and creating opportunity.

Strong Communities

Ontario's communities will be well positioned to seize opportunities and overcome challenges if all levels of government — federal, provincial and local — work together to achieve the shared goal of long-term economic prosperity.

The Province's commitment to building strong communities through new, more effective partnerships with municipalities is demonstrated through the following initiatives:

- establishing Move Ontario, the McGuinty government's major new $1.2 billion investment to expand and modernize Ontario's public transit systems, roads and bridges;
- providing long-term, sustainable funding for transit that municipalities can count on. The government is delivering on its commitment to make two cents of the existing provincial gas tax available for Ontario's public transit systems. Over five years, the total gas tax allocation across the province could be more than $1.4 billion. Municipalities will now be able to use funding for both transit capital projects and transit system operations;
- enhancing the 2006 Ontario Municipal Partnership Fund (OMPF), to provide an additional $56 million targeted to those municipalities with high municipal social program costs relative to their residents' household incomes;
- increasing the Provincial share of funding for public health to 65 per cent in 2006 and to 75 per cent by 2007;
- investing an estimated additional $300 million, over the next three years, to move towards a 50–50 sharing of the cost of municipal land ambulance services by 2008;
- introducing new legislation that, if passed, will make the Ontario Municipal Board (OMB) more efficient and accessible — giving municipalities a stronger voice in the process that shapes their communities;
- developing a more efficient and effective brownfield redevelopment program. A new one-window web portal is now available with easy-to-understand information on government initiatives that support brownfield remediation;
- introducing legislation enabling tax increment financing (TIF) to assist with brownfield redevelopment and public infrastructure development. This new

municipal fiscal tool would be introduced on a pilot basis, allowing for its prudent review in an Ontario context. If the legislation passes, the two pilots would be the subway expansion involving York Region and the City of Toronto, and the West Don Lands, a brownfield redevelopment initiative that is part of the revitalization of Toronto's waterfront;

- supporting the infrastructure renewal loan program of the Ontario Strategic Infrastructure Financing Authority (OSIFA), which is making a real difference in communities across Ontario. Collectively, municipalities are saving millions of dollars in interest charges and transaction fees over the life of their infrastructure financing loans;
- investing in the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF), a partnership with the federal government that is helping Ontario municipalities improve water and sewage treatment and waste management facilities, fix roads and repair bridges; and
- proposing legislation that would provide a process to review the governance model of the Ontario Municipal Employees Retirement System (OMERS), extend the municipal election cycle from three to four years, and allow the St. Clair Parks Commission to wind up by transferring parkland and recreational property to local municipalities.

There is also growing recognition that in order to fully address the financial challenges faced by many Ontario municipalities, the federal government needs to step up and contribute in a significant way.

A Solid Foundation for Long-Term Growth in the Greater Golden Horseshoe

The economy of the Greater Golden Horseshoe (GGH)[1] is a key driver of the province's prosperity, accounting for 70 per cent of Ontario's GDP. This area is a vibrant economic region where urban and rural communities contribute to a high quality of life and long-term economic growth.

The GGH is a hub of innovation and growth, where a diverse range of individuals, companies and institutions combine to bring new ideas to the world market. The challenge is to sustain and enhance this region's economic performance while maintaining a high quality of life that can attract the best and brightest from around the globe.

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1 The Greater Golden Horseshoe (GGH) includes the cities of Toronto, Hamilton and Kawartha Lakes, the regional municipalities of Halton, Peel, York, Durham, Waterloo and Niagara, and the counties of Haldimand, Brant, Wellington, Dufferin, Simcoe, Northumberland and Peterborough. In addition, the cities of Guelph, Peterborough, Barrie, Orillia and Brantford are within this geography.

In order to improve coordination in support of sustainable economic growth and address key challenges such as congestion and urban sprawl, the government is moving forward with Places to Grow, the growth plan for the GGH. Building on other key government initiatives (e.g., the Greenbelt Plan, Planning Act reform and the Provincial Policy Statement, 2005) and working within the planning process, this plan will provide a framework for decisions on a wide range of issues, such as land use planning, transportation and infrastructure. It will also create a better environment for investment decisions. The Ministry of Public Infrastructure Renewal expects to finalize the growth plan for the GGH in the first half of 2006.

An effective and efficient transportation system within the GGH will be a key element of a successful economy and a healthy environment. Strategic investments in GGH infrastructure are described in Section 1, including substantial contributions to transit funding within the GTA and the creation of the GTTA. Move Ontario, together with contributions from our federal and municipal partners, will be a major improvement to the movement of people and goods throughout the region.

At the heart of the GGH, the City of Toronto plays a vital role in both Ontario's and Canada's economies. It is a centre of commerce and innovation and the third-largest financial centre in North America.

The McGuinty government is the first to propose legislation that recognizes the City of Toronto as a responsible, accountable government. If passed, the Stronger City of Toronto for a Stronger Ontario Act would give Toronto the broad permissive powers needed to become more fiscally sustainable and autonomous. This act would provide the City with potential new sources of revenue and greater control over the services, programs and public assets it manages.

In addition to these proposed new revenue sources, Toronto will benefit from new transit funding, the ability to use the gas tax transfer for transit operating purposes, the recent enhancement to the land ambulance program and new funding under the Ontario Municipal Partnership Fund. Taken together, these measures provide Toronto with multi-year funding to significantly address its budget pressures until a long-term solution to the fiscal imbalance with the federal government is reached.

Strong Rural Communities

Ontario's diverse rural communities make valuable contributions to Ontario's quality of life and are an important part of the economy. By forging strong relationships with rural communities, the provincial government can ensure that rural areas continue to contribute to and share in Ontario's prosperity.

On February 20, 2006, the government released a progress report on Ontario's Rural Plan. First published in 2004, "Strong Rural Communities: Working Together for Success" outlines a framework under which the Province and rural municipalities can work together in support of strong, sustainable rural economies. Investments in rural communities include the following:

- under Move Ontario, an immediate investment of $400 million in municipal roads and bridges for communities primarily outside the GTA — with special emphasis on rural and northern communities;
- in 2006, rural communities across the province will receive $464 million in Ontario Municipal Partnership Fund and transitional support — more than half of the total funding provincewide. This funding will help rural communities address their local challenges and respond to policing and social program costs;
- $298 million to renew municipal infrastructure through the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF), expected to stimulate a total investment of $900 million over five years;

CANADA-ONTARIO MUNICIPAL RURAL INFRASTRUCTURE FUND (COMRIF)

- In 2005–06, COMRIF committed funding to 120 communities for their local infrastructure projects, with a Provincial commitment of almost $125 million towards eligible projects costing a total of over $370 million.
- Examples of projects funded by COMRIF include:
    - $3.1 million to upgrade the Geraldton Sewage System in the Municipality of Greenstone;
    - $15 million to build the North Bay Water Filtration Plant;
    - $1.2 million to install supervisory control and data acquisition systems that will serve the water pollution control plants and sewage pumping stations in Sault Ste. Marie;
    - $6.9 million for improvements to several roads in the City of Greater Sudbury;
    - $0.5 million to rehabilitate and replace two bridges in the County of Lambton; and
    - $0.2 million to rehabilitate two bridges in the City of Pickering.
- The application intake for the second round of COMRIF funding was announced in June 2005. A total of 339 applications were received and are now under review. Announcements are expected shortly.

- as of February 14, 2006, OSIFA has committed to provide more than $1.24 billion in financing to more than 150 rural communities for upgrading local infrastructure projects;
- investments to improve health care in rural Ontario:
    - between 2005 and 2008, the government is investing in 17 new Community Health Centres (CHC) and seven new satellite CHCs serving rural communities, providing access to primary health care and community health programs;
    - $9.5 million for telemedicine to bring health care to rural and northern residents who cannot get to a clinic or hospital;

- improvements to education in rural Ontario, such as:
  - recognizing the unique needs of rural schools through more than $200 million in additional supports since 2002–03, including new funds for school repairs, energy efficiency, library books and additional teachers;

- over $20 million has been funded through the Rural Economic Development Program in 2005–06. These investments support sustainable rural economies and community partnerships. The priorities of the Rural Economic Development Program are improved access to health care services, community revitalization, and skills enhancement;

- investments in rural industries include:
  - $520 million in the Ontario Ethanol Growth Fund to support expansion of ethanol production in Ontario; and
  - initiatives that encourage a strong, sustainable farm sector and programs that support and stabilize farm incomes.

Agriculture

Ontario has the largest agriculture sector in Canada, employing about 90,000 people in 2005. Like many sectors, farming is adapting to competitive challenges in a rapidly changing international marketplace.

Ontario's farm sector is highly diversified and benefits from proximity to markets, a favourable climate and good soils. Agriculture Canada forecasts that sales by Ontario farms will total more than $8 billion in 2005 — five per cent higher than the average of the previous five years.

The high Canadian dollar, increasing international competition, subsidies in other jurisdictions, trade disruptions and bad weather have challenged certain segments of the sector.

The government recognizes these challenges and is working to maintain a strong, sustainable farm sector. The government's recent announcement of $125 million includes new funding to help grain and oilseed farmers and horticulture farmers dealing with low returns and will bring total Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) expenditures for farm income stabilization and support programs to more than $800 million over the 2003–04 to 2005–06 fiscal years. Ontario farmers also receive favourable treatment under a number of taxes, such as the property tax, RST and fuel tax (see table below).

Farmers play an important role in Ontario's rural economy and many government programs work to the benefit of the broader rural community. Ontario's efforts to encourage ethanol production is one example. Another is the government's commitment

to the development of renewable sources of electricity generation. Net metering will allow electricity from water, wind, solar power and farm biomass to be sent to the grid, giving farmers who generate their own power an opportunity to earn credits towards their energy costs. The Ontario Power Authority (OPA) is moving forward with a standard offer program aimed at small-scale, clean or renewable generation, increasing economic opportunities for small businesses, including farms.

SELECTED EXAMPLES OF ONTARIO SUPPORT FOR FARMERS ($ MILLIONS)

OMAFRA Expenditures for Farm Income Stabilization and Support (2003–04 to 2005-06)[1]	834
Value of Farm Property Class Tax Rate Reduction[2] (2005)	300
Value of Retail Sales Tax Exemption for Agricultural Goods (2005)	265
Value of Fuel Tax Exemption for Coloured Fuel Used in Farm Equipment (2004)	43
Value of $500,000 Lifetime Capital Gains Exemption (2005)[3]	41
Value to Farm Corporations of Small Business Corporate Income Tax Rate (2005)	20
Expected OMAFRA Expenditures for Nutrient Management Assistance (2005–06)	12
Expected OMAFRA Expenditures for Agricultural Drainage Infrastructure Management (2005–06)	7
Expected OMAFRA Expenditures for Meat Plant Assistance Program (2005–06)	7
OMAFRA Expenditures for Ontario Cull Animal Strategy — abattoir expansion (2004–05)	7
Land Transfer Tax Exemption for Transfers of Farm Land between Family Members (2005)	5

1 Three-year total for the 2003–04 to 2005–06 fiscal years using expected expenditures for 2005–06.

2 Includes both municipal and education portions.

3 Estimates of Ontario's share of federal tax expenditures based on Ontario's 27 per cent share of national farm capital value.

Sources: Public Accounts of Ontario 2003-04 and 2004–05; 2005 Ontario Economic Outlook and Fiscal Review, Background Papers; Tax Expenditures and Evaluations 2005, Department of Finance Canada; Statistics Canada data and Ontario Ministry of Finance estimates.

Ontario and the federal government both have roles to play in helping to stabilize farm income and position agriculture for long-term success. In addition to meeting its commitment to fund business risk management and other programs under the federal–provincial Agricultural Policy Framework, in 2005–06, Ontario is providing:

- $80 million for grain and oilseed farmers to offset their losses on the 2005 crop;
- $35 million for producers of all edible horticulture crops to offset their past losses;
- $25 million to allow the University of Guelph to invest in its animal health laboratory;
- $10 million for an Ontario livestock and poultry traceability system;
- $3 million to small and medium-sized producers of Vintners Quality Alliance wine; and
- an additional $1 million to further support Ontario wine marketing efforts.

The government remains committed to a multi-year strategy that will stabilize and strengthen the province's agriculture industry for the future but requires the federal

government's participation as a full partner to support the agriculture industry in the way it needs and deserves.

Continued success for Ontario farms requires new approaches by both farmers and governments. In its pre-Budget submission, the Ontario Federation of Agriculture noted, "Agriculture research is the most cost-effective support for agriculture." Research is the raw material of innovation, and the government provides significant support for agricultural research. In addition to existing efforts, the government is providing $1 million in 2005–06 to the Grape Growers of Ontario for advanced research into hardier varietals.

Selected Examples of Ontario Agricultural Research Support

- ☐ Transferring Ontario's agricultural research stations and colleges to the Agricultural Research Institute of Ontario.
- ☐ A new Chair in Agricultural Research at the University of Guelph.
- ☐ Funding of over $50 million annually to the University of Guelph for agricultural research, education and laboratory services; and
- ☐ ReNew Ontario capital investments for agricultural research, education and laboratory services.
- ☐ $25 million in 2005–06 to allow the University of Guelph to invest in its animal health laboratory.
- ☐ $1 million in 2005–06 to the Grape Growers of Ontario for advanced research into hardier varietals.

The government is also investing in farm-level innovation, which is important in a number of ways, including increasing the productivity of agriculture, meeting changing consumer demands and managing the effects of farming on the environment. To help foster farm-level innovation, the government proposes to establish a new award for agri-food innovation excellence. Over the next five years, $2.5 million is to be awarded to outstanding farmer-innovators. The government will work with industry and academia to identify award criteria, with the intention that the first awards will be presented at the next Premier's Agri-Food Summit.

Northern Ontario

Northern Ontario's unique circumstances require focused and coordinated programs and initiatives to promote economic growth and job creation. The Province continues to work with communities and key industries in northern Ontario to support long-term prosperity within an increasingly competitive global economy. For example, as the Premier recently announced, the government is substantially increasing its commitment to help the forestry industry invest in and foster a new generation of forest-sector jobs.

Other Provincial investments that support prosperity for northern Ontario include the following initiatives:

- developing strategic economic infrastructure projects, such as:
  - an investment of more than $1.8 billion over five years announced on August 30, 2005 to upgrade and expand northern highways under the Northern Ontario Highway Strategy; and
  - the introduction of Move Ontario, an immediate one-time new investment of $400 million to help municipalities primarily outside the GTA — with special emphasis in rural and northern communities — invest in municipal roads and bridges.
- offering low-cost loans through OSIFA to northern municipalities to upgrade local infrastructure, providing $259 million to 47 northern communities as of February 14, 2006;
- investing in ongoing improvements to health care in northern Ontario, including:
  - a total investment of almost $25 million in 2004–05 and 2005–06 for surgeries, exams and equipment to northern communities under the Wait Time Strategy;
  - a commitment of $6.6 million annually for telemedicine services;
  - funding for Aboriginal health programs as part of the annual $44 million provincial Aboriginal Healing and Wellness Strategy;
  - substantial investments in northern Ontario hospitals over the next five years, such as expansion and service quality projects in North Bay, Sault Ste. Marie, Sioux Lookout, Thunder Bay and Sudbury;
  - the establishment of a new medical school to help alleviate the doctor shortage. The official opening of the Northern Ontario School of Medicine was celebrated in September 2005;
- investing in improvements to education in northern Ontario, such as $16 million to Northern school boards through the Good Schools Open Program and $6.6 million through Good Places to Learn;
- providing municipalities in the north with $278 million in OMPF funding and transitional assistance in 2006;
- reviewing the Provincial Land Tax (PLT) system and consulting broadly with northern communities and stakeholders. In 2006, the government will continue its review of the feedback from these consultations;
- providing $4 million to establish a Bio-Energy Research Centre in Atikokan to accelerate work now underway on the future use of the Atikokan Generating Station. This centre will carry out research of practical relevance to the future of the community and the province, and allow the station to continue to be a source of employment for the community;
- supporting jobs and investment created by the mining sector in northern communities;

- contributing $60 million annually to the Northern Ontario Heritage Fund Corporation (NOHFC). Under its new mandate, NOHFC will provide support for private-sector job creation, youth and emerging technologies, while continuing to invest in public infrastructure projects that support economic development;
- embarking on a new approach to Aboriginal Peoples, many of whom live in northern Ontario. The government is responding to the socioeconomic gap that exists between Aboriginal Peoples and other Ontarians by working on a number of initiatives, including actively engaging Aboriginal Peoples in creating a new, effective partnership in support of economic development. This includes developing proposals to enable Aboriginal Peoples to share fairly in the benefits of natural resource development. The government is also supporting literacy by providing:
    - $6 million to First Nations libraries to help strengthen literacy and promote lifelong learning for people of all ages;
    - more than $800,000 for the Lieutenant Governor's summer camp initiative that encourages literacy among aboriginal youth in northern Ontario. This initiative builds on the success of the Lieutenant Governor's Book Program, which provided over 850,000 books to First Nations and Native Friendship centres across Ontario;
- committing to initiatives under the Northern Prosperity Plan, such as:
    - the Northern Ontario Grow Bonds pilot program, which is providing financing for new and expanding firms;
    - a $15 million investment over three years, which began in 2005, to support geological mapping, which will help open the mining potential of the Far North;
    - the Go North Investor Program, which is putting northern Ontario on the radar for international investors and attracting new, innovative anchor investments to northern communities, such as
        - an investment in SIAG Great Lakes LP, a joint venture of more than $35 million between Algoma Steel Inc. and German-based SIAG. This state-of-the-art facility will use innovative technology to manufacture steel wind towers, bringing approximately 140 high-value jobs to Sault Ste. Marie;
        - the Northern Communities Investment Readiness initiative, which is helping northern communities identify and market their strengths to the world; and
        - Ontario's North, a new video that is part of a Go North marketing package that will be taken to international markets to showcase the north's business advantages, sector strengths and quality of life.

Forest Products

Ontario's forest-products industry plays a vital role in the Province's economy, particularly in northern Ontario, where it provides employment for some 30,000 people and is the mainstay of many communities.

Although global demand for wood and paper products continues to grow at a healthy rate and Ontario has many strengths in terms of experienced workers, proximity to key markets and a large resource base, the industry is facing a challenging period. The difficulties facing the industry include a strong Canadian dollar; U.S. softwood lumber duties; increasing supplies of low-cost plantation-grown fibre abroad; and weakening North American demand for newsprint and office papers.

Fundamental changes are needed to address these challenges.

Following up on the report of the Minister of Natural Resources' Advisory Council on Forest Sector Competitiveness in 2005, the government announced $680 million in assistance for the industry to help lever investments to improve its competitiveness. The Ministry of Natural Resources is moving to implement this assistance, including the $150 million Forest Prosperity Fund, cost-sharing for forest access roads, enhanced forest inventories and streamlined forestry approval processes. In addition, on February 22, 2006, the Premier announced a further $220 million over three years to help strengthen the industry.

The forest industry's continuing strength requires a sustained effort and the cooperation of companies, workers, communities and senior levels of government. This includes ensuring that the federal government follows through on the November 2005 commitment of a $1.5 billion, five-year national program to help forest companies, workers and communities.

Ontario Is Encouraging Forest Industry Transformation

- ☐ $350 million in loan guarantees to stimulate new investments.
- ☐ $150 million in grants to encourage new investment in co-generation, energy conservation and more value-added products.
- ☐ $28 million annually to help fund forest access roads.
- ☐ $10 million annually to fund enhanced forest resource inventories.
- ☐ $5 million over five years to promote new and innovative wood products.
- ☐ Streamlining forestry-related regulations and approval processes.

Recently announced initiatives

- ☐ A three-year extension of the transitional revenue limit on a portion of OPG output will help bring stability to the Ontario forest industry's electricity costs.
- ☐ Increased funding for forest access roads from $28 million to $75 million per year.
- ☐ A one-time $70 million refund in stumpage charges.
- ☐ A three-year, $3 million annual reduction in stumpage charges for white birch and veneer-grade poplar.

This Budget is also proposing to parallel federal tax measures to support co-generation systems that use a form of biomass called black liquor.

Mining

Mining has played a long and distinguished role in Ontario. Some of the world's outstanding deposits of nickel, gold and copper have been discovered here. Today, Ontario's first diamond mine is under development.

Currently, Ontario produces some $7 billion per year of metals, non-metallic minerals and aggregates. The industry directly employs 50,000 people across Ontario. In addition, Toronto has emerged as one of the world's premier centres of mining finance. Over 1,100 mining and exploration companies are listed on the Toronto Stock Exchange.

The mining industry is currently enjoying an exceptional boom in global demand, prices and profitability, and has a bright future, owing in large part to the robust demand expected from rapidly growing economies such as China and India.

Sustained strong investment in mineral exploration is also essential to the industry's continued well-being. Exploration expenditures in Ontario have nearly tripled since 2001 to an estimated $321 million in 2005, and are vital to the ongoing need to identify new ore reserves to sustain long-term mining activities.

New mining developments currently underway in Ontario include DeBeers' diamond mine near Attawapiskat; Falconbridge's new Nickel Rim mine in the Sudbury area; the expansion of Falconbridge's copper-zinc mine in Timmins; and the expansion of Goldcorp's gold mine in Red Lake.

Ontario has an opportunity to play a larger role in mining-related technology and innovation, and in the creation of an expanding range of value-adding goods and services. The recent launch of the new Centre for Excellence in Mining Innovation in Sudbury represents a new milestone in this direction. The Ontario Government is providing $10 million to Laurentian University to help launch the new Centre.

Ontario Support for Mining

- ☐ $10 million to Laurentian University to support the recent launch of the new Centre for Excellence in Mining Innovation in Sudbury.
- ☐ Recently announced Ontario Mineral Development Strategy to promote sound, sustainable growth.
- ☐ $15 million over three years for geological mapping in the Far North.
- ☐ One-stop Internet access to provincial mining-related services.
- ☐ $60 million over six years for cleanup of abandoned mines to protect the public and the environment.
- ☐ A reduction in the Ontario mining tax rate from 10 per cent to 5 per cent for new remote mines in Ontario.
- ☐ A three-year mining tax holiday on the first $10 million of profits generated by a new mine or a major expansion of an existing mine located in Ontario.
- ☐ A 10-year mining tax holiday on the first $10 million of profits generated by a new mine opened in a remote Ontario location.
- ☐ A 25 per cent resource allowance for corporate income tax purposes.
- ☐ Mineral exploration is eligible for flow-through share treatment and a five per cent share credit.

Manufacturing

The McGuinty government recognizes that a vibrant manufacturing sector is essential to Ontario's prosperity. Manufacturing accounts for about 17 per cent of Ontario's employment, 21 per cent of the province's GDP and 88 per cent of its international merchandise exports. Ontario's highly skilled workforce and labour cost advantages, including public health care, contribute to the competitiveness of the sector.

From 1994 to 2004, Ontario led North America in manufacturing job growth with a gain of 259,000 net new manufacturing jobs — more than any other Canadian province or U.S. state. Today, Ontario has the second-highest number of manufacturing employees of any province or state in North America. However, in 2005, Ontario's manufacturing sector came under increased competitive pressures due to a higher Canadian dollar and higher energy costs. As a result, manufacturing employment in 2005 declined 3.3 per cent.

Despite these pressures, the sector is proving resilient. Ontario manufacturing productivity increased 4.3 per cent in 2005. The higher dollar made it less expensive for companies to make capital investments to improve productivity by lowering the price of imported machinery and equipment. In 2005, expenditures in new machinery and equipment by Ontario's manufacturing sector increased by 7.4 per cent. This was the highest increase since 1998.

That being said, the government appreciates how difficult it has been for employees facing job loss or uncertainty in the manufacturing sector. The government provides a number of services for affected workers. These include:

- a $2.1 billion Jobs and Skills Renewal Strategy, including a One-Stop Training and Employment System that provides programs for the quick retraining and rapid re-employment of workers affected by layoffs and plant closures;
- adjustment committees, which provide a range of services for affected workers including job search assistance, vocational and business counselling, and training information; and
- ongoing support and strategies to encourage the auto industry to make new investments in Ontario.

The Ontario Government has been investing in the competitiveness of the manufacturing sector by putting in place policies that foster a positive investment climate in the province, including the enhancement of Ontario's economic infrastructure.

- In the past two years, Ontario surpassed Michigan as the leading auto-producing jurisdiction in North America. *Ward's*, the leading source of automotive market analysis and data, forecasts that Ontario will continue to lead North America over the near future.
- The Ontario Automotive Investment Strategy (OAIS) ensures that Ontario enhances its competitive advantage in this key export industry. So far, the government's auto strategy has leveraged over $5.7 billion in new investment in this sector.
  - Four of the world's leading auto producers — General Motors, Toyota, Ford and DaimlerChrysler — have committed to making new investments in Ontario in cutting-edge auto manufacturing technology, confirming that Ontario continues to be one of the best places in the world to manufacture automobiles.
  - Last year's announcement of a new Toyota auto plant in Woodstock – the first greenfield assembly plant in the province in nearly 20 years – was quickly followed in March of this year by announcements to establish a Hino Motors Ltd. truck assembly facility in Woodstock, and a Toyotetsu auto-parts plant in Simcoe. These announcements are further proof that the government's auto strategy is working, and confirm Ontario's economic advantages in attracting investment – great location, a skilled workforce, and excellent health care and education systems.
- Hybrid electric vehicles promise to be an emerging growth area for the future of the automobile sector, helping to reduce greenhouse gases. To promote the use of hybrid electric vehicles in Ontario, and signal the importance for Ontario of maintaining leadership in North American auto production, the Ontario Government proposes to double the maximum retail sales tax rebate for qualifying hybrid electric vehicles from $1,000 to $2,000 for vehicles delivered to purchasers after March 23, 2006.
- Ontario's $500 million Advanced Manufacturing Investment Strategy (AMIS) will help Ontario's industrial community make investments in leading technologies and innovations in order to keep them globally competitive.

- The Ontario Government's Reaching Higher plan for postsecondary education will make $6.2 billion in new cumulative investments by 2009–10 in universities and colleges, apprenticeships and skills programs to help address skills shortages in manufacturing as well as provide training for workers in transition.
- The government's ReNew Ontario plan is expanding and improving provincial highways and relieving congestion at border crossings. The government is also investing an additional $1.2 billion in transit, roads and bridges under the Move Ontario plan announced in this Budget.
- The three years of stable pricing on electricity provided by OPG for all electricity consumers will help the province's manufacturers to better manage electricity costs.

TAX INCENTIVES THAT BENEFIT ONTARIO'S MANUFACTURING SECTOR

- ☐ A proposed five per cent rate cut in Ontario's capital tax beginning in 2007.
- ☐ A corporate income tax (CIT) rate that is two percentage points below the general CIT rate.
- ☐ The proposed doubling, subject to federal implementation, of the non-capital loss carry-forward period from 10 to 20 years.
- ☐ A 25 to 30 per cent refundable tax credit for hiring apprentices in industrial, construction, motive power and certain service trades.
- ☐ Corporate tax incentives for research and development.
- ☐ A bonus 30 per cent CIT deduction for new pollution control equipment.
- ☐ A 100 per cent CIT writeoff for new assets used to generate electricity from clean, alternative or renewable sources.
- ☐ A capital tax exemption for new assets used to generate electricity from clean, alternative or renewable sources.
- ☐ A retail sales tax (RST) exemption for production machinery and equipment.
- ☐ An RST exemption for reinforced concrete used to make production machinery and equipment.
- ☐ An RST exemption for materials incorporated into goods for sale.

Further information on these and other Ontario tax provisions can be found in the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers*.

Despite the challenges faced by Ontario's manufacturing sector, the government is confident that manufacturing will continue to be a successful and productive participant in Ontario's diverse economy.

The Entertainment and Creative Cluster

In 2004, the entertainment and creative cluster contributed nearly $9.9 billion to Ontario's economy (2.3 per cent of GDP). Ontario is North America's third-largest employer in the entertainment and creative industries, after California and New York. In 2005, Ontario employment in the cluster totalled approximately 185,000 people, accounting for 42 per cent of Canada's total workforce in this cluster. In addition to this direct economic contribution, the presence of the cluster enhances quality of life, creativity and innovation, which further boosts economic growth by attracting tourists, businesses, skilled workers, and highly mobile professionals and investors.

The entertainment and creative cluster includes a broad range of creative content industries, including film and television production, sound recording, and book and magazine publishing. The cluster also includes fast-growing new media industries (e.g., digital special effects and interactive products like video and computer games) and independent artists, authors, musicians and filmmakers.

The development of this cluster is characterized by the enhancement of economic linkages and synergies among these various creative industries, as well as linkages with other related industries, including fashion, architecture, graphic and industrial design, computing (hardware and software) and telecommunications.

In order to reinforce and further support the entertainment and creative cluster, the government is committing to a number of initiatives including:

- a proposed extension of the enhanced 18 per cent rate for the Ontario Production Services Tax Credit until March 31, 2007;
- a proposed enhancement of the Ontario Interactive Digital Media Tax Credit to provide more support for smaller companies and to facilitate access to this tax credit for large companies and more industries, such as Ontario-based interactive video-game developers;
- providing $49 million to support Ontario's major cultural agencies and attractions. The Royal Ontario Museum, Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art will all receive funding to help them realize their full economic potential as premier tourist attractions;
- allocating $10 million to the Ontario Heritage Trust in support of its mandate to identify, preserve and protect Ontario's heritage, as well as to increase public awareness of the importance of heritage conservation;
- establishing the Entertainment and Creative Cluster Partnerships Fund. This new fund will provide $7.5 million over the next three years to promote cooperation between firms among the different sectors in the cluster. Project areas will include entrepreneurship and skills development, domestic and international marketing, new product prototype funding and development of cluster performance measures; and
- providing $1 million in support for development and production plans for the 2007 Toronto International Arts Festival. This is in addition to $1 million in support provided to Festival organizers in 2005. From a base in Toronto, the Festival will highlight and make use of artistic and cultural venues and resources from other parts of Ontario including Niagara, Stratford and Muskoka.

Markets for Video and Computer Games and Ontario's Potential

According to a June 2005 report by PricewaterhouseCoopers (PwC), the global market for video and computer games is expected to register one of the highest growth rates among the various sectors of the entertainment and creative cluster, with a projected compound annual growth rate of 16.5 per cent over the 2005–09 period.[2]

The video- and computer-game sector consists of four segments: PC games, console games, online games and wireless games. According to the PwC report, online and wireless games have the fastest growth potential, with projected compound annual growth rates of 45.5 per cent and 49.7 per cent respectively between 2005 and 2009.

Factors that position Ontario as a successful growth hub in the video-game area include:

- a large pool of creative talent and a strong record of innovation, supported by well-established postsecondary institutions such as Sheridan, Seneca, George Brown, Ryerson and McMaster, which offer a wide range of programs that produce highly skilled graduates;
- researchers and developers achieving success in parallel fields such as multimedia and animation;
- finance, business and marketing strengths vital to the production, publication, distribution and commercialization of new products;
- proximity and linkages with the United States, home of the largest video-game industry and the second-largest market; and
- one of the most ethnically diverse regions in the world, which positions the province well to link with and gain access to the Asia and Pacific markets, which are projected to experience one of the fastest rates of growth between 2005 and 2009.

The government's support to the video- and computer-games segment is reflected in the proposal to enhance the existing Ontario Interactive Digital Media Tax Credit to facilitate access to this program for Ontario-based video-game developers.

2 PricewaterhouseCoopers, "Global Entertainment and Media Outlook 2005–2009, Video Games," June 2005.

Section VII: Building the Investment Climate

Continued growth in Ontario's economy depends on the vitality of the investment climate and the health of its diverse economic sectors. Creating opportunity for investment is important to the health of the economy. There are a number of ways that the government can support a strong investment climate, including many of the measures related to infrastructure, education, training and innovation discussed in the previous sections.

Competitive Taxes: Accelerating Ontario Capital Tax Rate Cut

A competitive tax system is essential to attract business investment and foster economic growth in a highly competitive global economy.

Although corporate income tax rates in Ontario remain competitive with surrounding jurisdictions, Ontario's capital tax — which taxes business investment rather than profits — is widely recognized as a barrier to attracting investment and fostering new economic growth. One of the key areas where the Ontario economy has underperformed the United States is investment as a share of GDP. This has stood in the way of high-productivity job creation, which is needed to fully utilize our skilled workforce.

The government enacted legislation in 2004 to enhance Ontario's investment climate by gradually phasing out the province's capital tax at a pace that enabled the funding of key government priorities such as education, health and infrastructure. This capital tax elimination plan included increases to the deduction, followed by reductions to the capital tax rates until the tax is eliminated in 2012. The deduction is being increased from $5 million in 2004 to $15 million in 2008, which will have the effect, by 2008, of exempting more than 14,000 additional corporations from the capital tax. Starting on January 1, 2009, the capital tax rates are being reduced every year so that by January 1, 2012, the tax is completely eliminated.

However, recognizing the increased importance of attracting new investment to the province, the government is proposing, in this Budget, to accelerate the capital tax rate cut. Effective January 1, 2007, the current rate would be cut by five per cent — a full two years earlier than currently scheduled. Further, the government intends to eliminate the tax in 2010 should the fiscal position of the Province allow.

Increased capital investment creates widespread benefits to people throughout the Ontario economy. It provides incentives to invest in new technology that raises productivity, allowing companies to pay higher wages and create more and better jobs. The capital tax rate cut proposed in this Budget will further enhance Ontario's already competitive business environment in a fiscally responsible way.

Combined corporate income tax rates in Ontario compare favourably with most competing jurisdictions. Ontario's combined statutory corporate income tax rates are below the average for the United States, particularly for manufacturing, and are below the combined rates in each of the Great Lakes states against which Ontario competes most directly.[3]

ONTARIO SUPPORTS SMALL BUSINESS THROUGH THE TAX SYSTEM[4]

- ☐ Ontario's preferential small business corporate income tax (CIT) rate permits eligible Canadian-controlled private corporations to save $825 million annually.
- ☐ Small businesses, credit unions, caisse populaires, family farm corporations and family fishing corporations that are exempt from Ontario's capital tax save over $255 million annually.
- ☐ Small businesses are exempt from Ontario's corporate minimum tax.
- ☐ Private-sector employers eligible for an Employer Health Tax Exemption save $575 million annually.
- ☐ Small businesses hiring apprentices or co-op students are eligible for enhanced refundable tax credits.

With Ontario's highly educated workforce, competitive tax environment, health care cost advantage, and supportive business environment, Ontario remains a leader in attracting new business and fostering a new generation of economic growth. The McGuinty government is committed to policies that will help Ontario improve this economic advantage.

MODERNIZING BUSINESS AND FINANCIAL SERVICES REGULATION

Along with competitive taxation, a competitive regulatory framework also supports a positive investment climate and a growing economy. Ontario is continuing to modernize its business and financial regulation in order to maintain a high-quality business environment, stay ahead of fast-changing global markets and build on Ontario's economic advantage.

Modern regulation supports both dynamic markets that unlock economic growth potential and consumer choice, and provides protection for consumers and investors. This includes making sure regulation is up-to-date and internationally competitive, so that businesses can adapt to changing markets and to new ways of serving customers. High-quality business and financial regulation, which supports market confidence and efficiency, can be a key competitive advantage that helps attract investment.

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3 A detailed comparison of marginal effective tax rates (METR) – another way to look at tax competitiveness – was carried out by the federal Department of Finance in the paper *Tax Expenditures and Evaluations* (November 2005). They found that, using a projection of proposed federal and provincial tax changes, the METR for manufacturing in Ontario would be below the average for the mid-western region of the United States, which includes key manufacturing states such as Michigan, Illinois and Ohio.

4 2005 estimates, *2005 Ontario Economic Outlook and Fiscal Review, Background Papers.*

- Modern and competitive regulation is pivotal to the growth of two key sectors of the economy: business services and financial services. They represent Ontario's top two traded industry clusters, according to the Institute for Competitiveness and Prosperity.
- A high-quality regulatory environment is among the many advantages that Canadian financial institutions recognize as helping to anchor their location in Toronto. Toronto's pool of skilled professionals is another such advantage — Toronto is home to the second-largest number of financial analysts in the world, after New York. More businesses locate their head office in Toronto than in any other city in Canada.
- Canada, however, is the only major nation without a national securities regulator, and this may contribute to Canada falling short of achieving its full economic potential. Ontario will continue to promote the creation of a common securities regulator in Canada.

Modern regulation and commercial laws that protect the public interest on a cost-effective basis help companies start up and grow. As a result, governments are taking a closer look at their business regulations to reduce barriers to growth for small and medium-sized businesses, a key engine of growth.

- The Small Business Agency of Ontario has been set up to:
  - promote regulatory best practices, including facilitating compliance while protecting health and safety;
  - streamline paperwork; and
  - ensure that small business interests are part of government decision-making. Last fall, through the agency, the government launched a new online Regulatory Registry to facilitate the exchange of information between government regulators and businesses regarding the impact of regulatory proposals on small business.

Regulatory reforms undertaken by the Ministry of Labour to help advance safe, fair and harmonious workplace practices are having a positive impact on Ontario's economic climate. More effective, targeted inspection and enforcement have helped to create safer workplaces.

Modernizing Regulation Supports Investment and Growth

- On February 20, 2006, the government introduced the Mortgage Brokerages, Lenders and Administrators Act, 2006 to replace the Mortgage Brokers Act. The proposed legislation will strengthen consumer protection and modernize the regulatory framework in a fast-growing segment of the financial services market.
- With over $23 billion in assets, credit unions and caisses populaires play a vital role in the economic life of communities throughout Ontario. The government has consulted on proposals to modernize the rules governing credit unions and caisses populaires. The proposals would streamline regulatory processes; enhance the ability of credit unions and caisses populaires to manage risk, strengthen governance, and increase operating efficiency; and improve consumer protection. The government plans to release draft regulations on rules for capital adequacy and lending, and to introduce amendments to the Credit Unions and Caisses Populaires Act at the earliest opportunity.
- The government is making continued progress on business law reforms. It has introduced legislation to update the legal framework for the electronic transfer of securities, and has enacted provisions that will eliminate some of the inconsistencies and duplication between business and securities laws. The government is exploring further legislative changes to update business laws and make them more consistent with Ontario securities laws.
- The government responded to the Standing Committee on Finance and Economic Affairs (SCFEA) Report on the Five-Year Review of the Securities Act by implementing civil liability for secondary-market disclosure. The government also enacted new provisions to strengthen the legislature's oversight of the Ontario Securities Commission (OSC), and give the OSC broader rule-making authority in relation to corporate and investment fund governance, and provide shareholder flexibility to communicate during a takeover bid.
- The government has also approved OSC fee reductions that more closely align the revenues they generate with the costs of regulation — these changes are expected to cut OSC fee revenues by 16.7 per cent on average in each of the next three years.
- The McGuinty government continues its strong advocacy for a common securities regulator in Canada, which is key to making Canada's securities markets more competitive and efficient. The Minister of Government Services has received and is carefully considering "A Blueprint for a New Model — A Discussion Paper by the Crawford Panel on a Single Canadian Securities Regulator," while engaging other jurisdictions in discussing how to move forward towards that objective.
- The government plans to propose additional legislative changes to harmonize securities regulation across jurisdictions and streamline Ontario's securities and corporate laws.
- The government is working with other jurisdictions and the Canadian Public Accountability Board (CPAB) to maintain an effective and well-functioning oversight system for audit firms, which supports public confidence in the integrity of financial reporting by public companies.
- Ontario endeavours to ensure that provincially incorporated businesses operate under fair and appropriate rules that are consistent with those in other jurisdictions. The government intends to amend the Insurance Act, and make complementary amendments to the Corporations Act, to allow Ontario's farm mutual insurance companies and other provincially regulated insurers to operate under investment and corporate governance rules similar to those at the federal level.

Conclusion

The Ontario economy has faced substantial challenges from high oil prices and a record-high increase in the Canadian dollar over the past two years. Despite these obstacles, Ontario's economic growth over this period has exceeded the expectations of most forecasters.

The ability of the economy to withstand these external risks is an indication of strong fundamentals and the hard work and ingenuity of Ontario's people and businesses. Ontario has a vibrant and highly diversified economy that is well positioned to compete in the world economy.

These challenges from the global economy will be a fact of life for the foreseeable future. This makes it even more important for all levels of government to work together to ensure that the environment for doing business in Ontario is as strong as possible, to maximize our competitive advantages and encourage investment that creates growth in productivity and rising standards of living for Ontario families.

The Ontario Government has the responsibility for providing some of the key economic resources and services that will contribute to strengthening Ontario's economic advantage.

The government's plan includes key elements that will:

- bring Ontario's economic infrastructure up to 21st-century standards;
- create a comprehensive, efficient and safe provincial transit system;
- ensure a reliable and environmentally sustainable supply of electricity;
- invest in education and health care;
- foster a culture of innovation;
- work with key sectors such as forestry to adjust to changing conditions; and
- ensure competitive tax rates, including a proposed five per cent capital tax rate cut.

The government's strategy is about maximizing the potential of Ontarians. Ontario's economy has some of the strongest fundamentals in the world. Ontario is already a great place to live and do business, but it has the potential to be even greater. The right government policies, carried out in a fiscally responsible manner, will help Ontario achieve its potential.

PAPER B: Appendix

Ontario's Economic Outlook

Introduction and Overview

This appendix outlines Ontario's current economic outlook.[1] Ontario is expected to see sustained economic growth, despite the challenges arising from the global environment. The growing economy will contribute to revenue growth, keeping the fiscal plan on track.

The Ontario economy showed moderate growth in 2005, with real gross domestic product (GDP) increasing an estimated 2.7 per cent, significantly higher than the 2.0 per cent projection used for planning purposes in the 2005 Budget. Economic growth in 2005 was also well above the average private-sector projection at the time of the 2005 Budget (2.3 per cent). This is a testament to the fundamental strength of the Ontario economy.

Although short-term interest rates moved moderately higher and oil prices reached record levels, consumer spending, the housing market and real business investment held up well in 2005. Ontario's exporters faced significant challenges because of the sharp rise in the Canadian dollar, but managed to record modest gains, increasing exports for the second straight year. Employment continued to rise, reducing the annual average unemployment rate to 6.6 per cent — the lowest rate in four years.

External forces continue to represent a challenge for Ontario's growth prospects. The Canadian dollar has continued to climb, reaching a 14-year high in early 2006, while oil prices remain close to all-time highs. The Bank of Canada has indicated that it may continue to raise interest rates. Most forecasters expect limited interest rate increases as national growth moderates and inflation remains low.

The economic forecast underlying the fiscal plan is intended to be prudent, taking into account significant risks from adverse external developments. The Ministry of Finance is therefore projecting real GDP growth of 2.3 per cent for 2006. As Ontario adjusts to the higher Canadian dollar and energy prices ease, growth is expected to improve to 2.5 per cent in 2007 and 2.9 per cent in 2008. These projections of economic growth support the outlook for base taxation revenue growth of 3.6 per cent in 2006–07 and an average of 4.7 per cent over the following two years.

Ontario Economic Outlook
(Per Cent)

	2004	2005e	2006p	2007p	2008p
Real GDP Growth	2.7	2.7	2.3	2.5	2.9
Nominal GDP Growth	4.9	5.3	4.5	4.3	4.7
Unemployment Rate	6.8	6.6	6.3	6.2	6.1
CPI Inflation	1.9	2.2	2.1	1.8	1.8

e = Ministry of Finance estimate for real and nominal GDP growth; p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

1 This Budget is based on information available up to March 16, 2006.

Ontario's Economic Outlook

This section discusses the Ontario economic outlook for 2006 to 2008. In order to establish reasonable fiscal plans, the government consults with private-sector forecasters to develop economic projections. The Minister of Finance met with private-sector economists in the process of developing this Budget to obtain expert opinion on the economic challenges facing the province and advice on economic projections and assumptions. The assumptions about Ontario's economic growth that are used for planning purposes are typically below the average private-sector forecast.

Currently, private-sector economists, on average, expect Ontario real GDP growth of 2.6 per cent in 2006, 2.6 per cent in 2007 and 3.1 per cent in 2008.

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)

	2006	2007	2008
Conference Board (February)	2.7	3.4	3.4
Global Insight (January)	2.7	2.5	2.9
Centre for Spatial Economics (November)	2.6	3.8	3.3
University of Toronto (March)	2.7	2.3	2.9
Bank of Montreal (December)	3.1	3.1	–
RBC Financial (March)	3.2	2.8	–
Scotiabank (March)	2.0	2.1	–
TD Bank (February)	2.4	2.3	–
Nesbitt Burns (March)	2.5	2.4	–
CIBC World Markets (February)	1.8	1.6	–
Private-Sector Survey Average	2.6	2.6	3.1
Ontario's Planning Assumption	2.3	2.5	2.9

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 2006).

The Global Economic Environment

Ontario is part of an increasingly integrated global economy. This economic outlook reflects developments in external forces that have adversely affected Ontario's growth prospects. Oil prices have risen sharply over the past two years and are expected to remain high. The Canadian dollar is now expected to remain above 85 cents US over the medium term. The U.S. economy is expected to grow at a healthy rate in 2006, although more slowly than last year's pace.

Private-sector forecasters expect oil prices to average $60.50 US per barrel in 2006 and $56.60 US per barrel in 2007, reflecting strong global demand and potential supply disruptions due to ongoing political instability in key oil-producing regions. High oil prices reduce the amount of discretionary income available for households to spend on other goods and services. For many businesses, high oil prices reduce profits and their ability to fund new investments.

Forecasts for the Canadian dollar currently average 86.6 cents US for 2006 and 86.9 cents US for 2007. The rise in the Canadian dollar is presenting a significant challenge for Ontario's export-oriented manufacturing sector. Despite the high dollar, manufacturing output has increased and firms have raised productivity. Partly offsetting its negative impact on competitiveness, the high dollar benefits Ontario households and businesses by lowering the cost of imported consumer goods and machinery and equipment.

U.S. economic growth is expected to decline from 3.5 per cent in 2005 to 3.4 per cent in 2006 and 3.0 per cent in 2007. While growth will benefit from relatively low interest rates and post-hurricane rebuilding, high levels of consumer debt and the massive U.S. fiscal and current account deficits raise questions about the sustainability of U.S. economic growth.

The Bank of Canada is expected to raise interest rates in 2006 and long-term bond yields are expected to move up. This will dampen household and business spending.

The table below highlights the average private-sector forecast of several external factors that are key determinants of Ontario's economic growth.

Key External Factors Affecting Ontario's Economy
Average Private-Sector Forecast

	Actual		Forecast		
	2004	2005	2006	2007	2008
Canadian Dollar (Cents US)	76.8	82.5	86.6	86.9	85.9
Crude Oil ($ US per Barrel)	41.4	56.5	60.5	56.6	49.9
U.S. Real GDP Growth (Per Cent)	4.2	3.5	3.4	3.0	3.1
3-month Treasury Bill Rate (Per Cent)	2.2	2.7	3.9	4.1	4.3
10-year Government Bond Rate (Per Cent)	4.6	4.1	4.3	4.6	5.2

Sources: Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (March 2006) and Ontario Ministry of Finance Survey of Forecasts (March 2006).

The next table shows the typical range for the first- and second-year impact of changes in these external factors on the real growth of the Ontario economy. These estimates are based on historical relationships and illustrate the upper and lower bounds for the average response. The results show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of other circumstances can also have a substantial bearing on the actual outcome. The range of possible impacts reflects a variety of factors. For example:

- A percentage point increase in U.S. real growth would add 0.3 to 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar would reduce Ontario real growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass lower import costs through to domestic prices for goods and services in Canada.
- A sustained $10 US per barrel increase in the price of world crude oil would lower U.S. growth and trim Ontario's real growth by 0.3 to 0.7 percentage points in the first year. This impact assumes a matching rise in natural gas prices, since it is a substitute source of energy. The range is due in part to uncertainty regarding the degree to which higher energy costs affect consumer and business expectations and behaviour.
- A one percentage point rise in nominal interest rates would reduce Ontario real GDP growth by 0.1 to 0.5 percentage points in the first year. Real growth would be reduced further in the second year, owing to the length of time it takes for monetary policy changes to affect spending. Higher interest rates discourage interest-sensitive spending such as housing and durable-goods purchases. The range in part reflects the extent to which the negative impact would be offset by higher interest income.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth[1] (Percentage Point Change)

	First Year	Second Year
Canadian Dollar Appreciates by Five Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by $10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5
U.S. Real GDP Growth Increases by One Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Interest Rates Increase by One Percentage Point	-0.1 to -0.5	-0.2 to -0.6

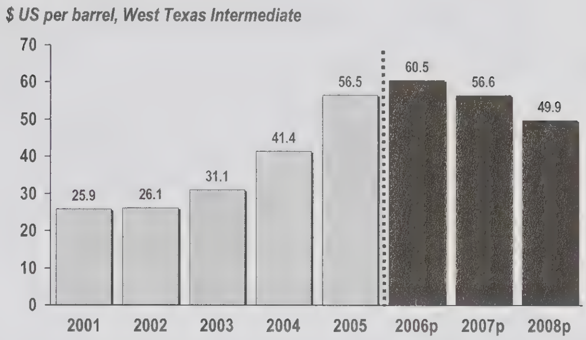
1 Impacts based on changes being sustained.

Source: Ontario Ministry of Finance.

Oil Prices

Crude oil prices soared to record levels in 2005, climbing 36 per cent to an average of $56.50 US per barrel. This was the fourth consecutive year that oil prices rose. Over this period, prices for this key commodity have more than doubled. The sharp rise in oil prices reflects a combination of very strong global demand and some supply disruptions in key oil-producing regions.

Crude Oil Price Forecast



p = private-sector survey average.
Sources: New York Mercantile Exchange and Ontario Ministry of Finance Survey of Forecasts (March 2006).

Accompanying the rise in crude oil prices, the price of natural gas spiked by about 45 per cent in 2005. Strong demand, in combination with hurricane-induced supply losses, contributed to a very tight market and high prices for natural gas.

Private-sector forecasters predict that the main factors affecting energy markets in recent years will continue to play a significant role in 2006. As a result, crude oil prices are expected to average $60.50 US per barrel in 2006. As additional production capacity comes online over the medium term, private-sector forecasters expect oil prices will decline to $49.90 US by 2008.

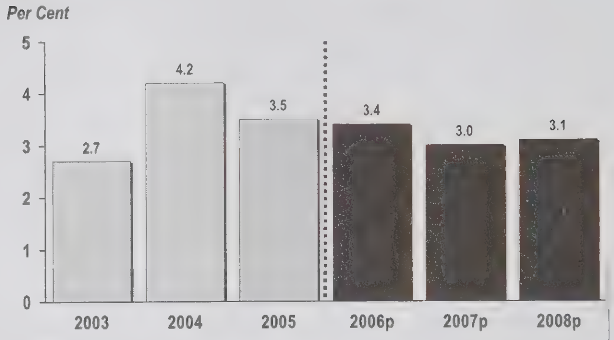
The sharp run-up in oil prices during the past two years has not appreciably slowed the growth of the global economy. Unlike past periods, when oil price spikes contributed to significantly slower economic growth, the recent increase in prices has been mainly the result of strong demand, not steep withdrawals of supply. Furthermore, industrial economies, including Ontario, have become more energy efficient over the past three decades, reducing the rate of energy consumption relative to GDP by about 50 per cent over this period.

For planning purposes, oil prices are assumed to average $61 US per barrel in 2006, and then gradually decline to $57 US in 2007 and $52 US in 2008, slightly higher than the private-sector average.

U.S. ECONOMY

The U.S. economy continued to expand at a strong pace in 2005, with real GDP growing 3.5 per cent, following a gain of 4.2 per cent in 2004. Forecasters expect continued healthy growth in the U.S. economy, although at a slower pace. The *Blue Chip Economic Indicators* survey projects U.S. real GDP growth of 3.4 per cent in 2006, 3.0 per cent in 2007 and 3.1 per cent in 2008.

U.S. Real GDP Growth



p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (March 2006).

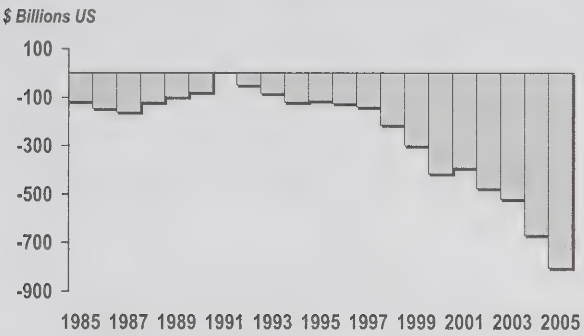
While forecasters expect the U.S. economy to continue growing at a healthy pace, there are a number of risks to growth on the horizon.

To combat increased inflation pressures, the U.S. Federal Reserve has tightened monetary conditions considerably, increasing its benchmark rate 350 basis points since June 2004. The Federal Reserve estimates that a 100 basis point rise in interest rates reduces real growth by 0.6 percentage points in the first year and 1.1 percentage points in the second year. Although forecasters expect the pace of consumer spending growth to ease modestly in 2006, rising interest rates, in combination with already high gasoline prices and elevated personal debt levels, create a risk of a sharper slowdown. The residential construction sector has been an important driver of the current U.S. expansion, as the low interest rate environment encouraged strong housing demand. However, signs of weakening housing market activity appeared in late 2005, prompted in part by rising mortgage rates and the accompanying deterioration in home affordability. This softening could lead to a slower pace of new homebuilding. If home prices also decline, household wealth would be lower and reduced funds would be available for consumer spending through mortgage equity withdrawal. Higher interest rates would also increase financing costs, leaving less money available for discretionary consumer spending.

The very large U.S. fiscal and current account deficits raise concerns about the sustainability of the pace of U.S. economic growth. The U.S. federal budget deficit fell 23 per cent to $319 billion US in the 2005 fiscal year, or 2.6 per cent of GDP, compared to 3.5 per cent in 2004. However, the government's budget shortfall is likely to worsen in 2006, reflecting in large part post-hurricane rebuilding expenditures, expanded prescription-drug coverage and an extension of the alternate minimum tax threshold. The U.S. current account deficit as a share of GDP reached 6.4 per cent in 2005, up from 5.7 per cent in 2004. Private-sector forecasters expect the U.S. current account deficit to show little improvement in 2006, owing to moderate foreign demand and the U.S. dollar's strength against the euro and Japanese yen over the past year.

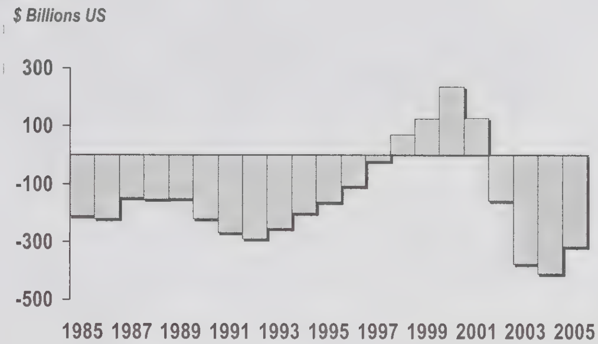
Both the fiscal and current account deficits require a large amount of external financing and have made the United States increasingly dependent on foreign capital inflows. If the confidence of international investors in the health of the U.S. economy were to falter, this could sharply reduce funds supplied to U.S. markets, potentially resulting in considerably higher interest rates and weakening consumer and business demand.

U.S. Current Account Balance



Source: U.S. Department of Commerce.

U.S. Fiscal Balance

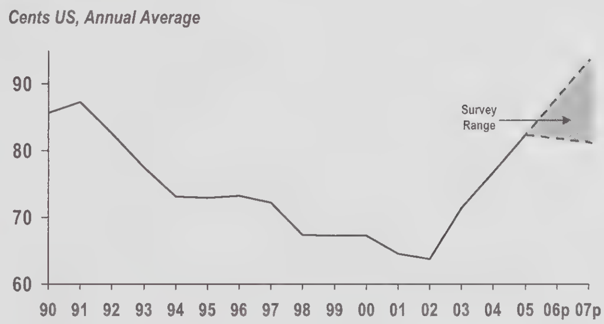


Source: U.S. Office of Management and Budget.

THE CANADA–U.S. EXCHANGE RATE

The Canadian dollar has steadily appreciated against the U.S. dollar for three consecutive years, reaching a 14-year high of over 88 cents US in early 2006. The Canadian dollar was the strongest-performing major currency in 2005. Compared to other major currencies, the Canadian dollar appreciated 5.0 per cent against the U.S. dollar, 18.5 per cent versus the euro and 19.8 per cent against the Japanese yen in 2005.

Canadian Dollar



p = private-sector survey range.
Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (March 2006).

The strength of Canada's currency presents a significant challenge to Ontario exporters as they compete in an increasingly competitive global marketplace for traded goods and services. The high dollar tends to have a bigger impact on Ontario than the other provinces. In 2005, international exports were equivalent to 42 per cent of Ontario's GDP — more than seven percentage points higher than the rest of Canada.

Ontario manufacturers have responded to the high dollar by increasing investment in machinery and equipment, thereby boosting productivity, finding operating efficiencies and introducing other cost-saving measures. Since about 60 per cent of Ontario machinery and equipment is imported, the high dollar has significantly lowered the cost of these investment goods. The higher dollar also improves the purchasing capacity of consumers by reducing prices of imported goods and lowering international travel costs.

There is a wide range of views among forecasters about the future path of the Canadian dollar, with forecasts ranging from 84.1 to 89.0 cents US in 2006 and from 81.6 to 88.6 cents US in 2008. For the purposes of this Budget, the Canadian dollar is prudently assumed to average 87.0 cents US — above the average private-sector forecast for the dollar in every year.

The Canadian Dollar Outlook (Cents US)

	2006p	2007p	2008p
Private-Sector Average	86.6	86.9	85.9
High	89.0	94.0	88.6
Low	84.1	81.3	81.6
Budget Assumption	87.0	87.0	87.0

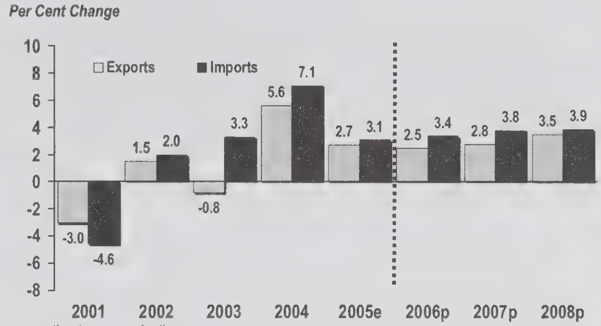
p = projection.

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 2006).

Exporters Continue to Make Gains in a Competitive Trade Environment

Despite facing the competitive challenge of an almost 38 per cent appreciation of the Canadian dollar since early 2002, Ontario exports have continued to grow, bolstered by a strong world economy. In 2004, Ontario's total real exports advanced 5.6 per cent, led by a 7.3 per cent rise in international merchandise exports, the strongest gain in four years. Although the pace of export growth slowed in 2005, real exports rose an estimated 2.7 per cent. This ongoing strength in exports also reflects the adaptability of Ontario industry, which has responded to the high dollar by increasing productivity, lowering input costs and shifting to higher-value products.

Ontario Real International and Interprovincial Trade



e = estimate; p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Economic growth in the rest of Canada, the United States and overseas is expected to provide solid demand for Ontario exports in 2006. However, the ongoing strength of the Canadian dollar is projected to limit total export growth to 2.5 per cent in 2006. As exporters adjust to the higher value of the Canadian dollar, Ontario exports are expected to rise by an average of 3.2 per cent in the 2007 and 2008 period. Ontario real imports are forecast to increase by an average of 3.7 per cent a year from 2006 to 2008.

The United States is Ontario's most important trading partner, by a wide margin, purchasing almost 90 per cent of the province's international merchandise exports in 2005. The auto sector accounted for about 45 per cent of the province's merchandise exports to the United States. Demand for motor vehicles in the United States picked up slightly to 17.4 million units in 2005, from 17.3 million in 2004. While U.S. motor-vehicle sales are expected to decline to 16.9 million units in 2006, inventory levels have been reduced significantly and production is expected to rise. In addition, the introduction of new models should give Ontario exports a boost. Ontario's share of North American vehicle production has risen from 15.7 per cent in 2003 to 16.4 per cent in 2005. Ontario is now the largest motor-vehicle assembler in North America, surpassing Michigan in the past two years. Over the medium term, Ontario auto exports will benefit from new production lines, including the new Toyota plant in Woodstock, which is scheduled to begin production in 2008. Toyota's investment decision was followed in March 2006 with announcements of plans to establish a Hino Motors Ltd. truck assembly plant, also in Woodstock, and a Toyotetsu auto parts plant in Simcoe.

Machinery and equipment exports, which account for about 21 per cent of the province's international merchandise exports, increased 4.4 per cent in value in 2005. With robust corporate profits, strong cash flows and high rates of capacity utilization, U.S. businesses are expected to increase real outlays on investment in equipment and software by 9.8 per cent in 2006 and 5.9 per cent a year during the 2007 to 2008 period, providing a growing market for Ontario exporters.

Industrial goods and materials exports (such as iron, steel, other metals, rubber and plastics), which account for about 19 per cent of Ontario's international merchandise exports, were the strongest-growing export category in 2005, up 6.5 per cent in current dollars. Global growth is expected to remain buoyant in 2006 and 2007, continuing to provide solid demand for Ontario exports of these products.

The rapidly growing emerging economies, including Brazil, Russia, India and China, have become increasingly important markets for Ontario exports. Over the past four years, Ontario merchandise exports to India had a threefold increase, followed by Brazil (up 87 per cent), Russia (up 77 per cent) and China (up 67 per cent). These countries account for only one per cent of Ontario's exports but almost eight per cent of Ontario's imports. Over the medium term, these emerging markets are expected to maintain strong rates of economic growth, creating opportunities for Ontario.

Since 2002, Ontario's nominal exports to other provinces increased by a cumulative 15.3 per cent. Sales to other provinces as a share of total Ontario exports have increased from 27.6 per cent in 2002 to 30.9 per cent in 2005. This has occurred in part because of strong economic growth in some other regions of Canada and in part because of the adverse impact of the rising Canadian dollar on Ontario's international exports.

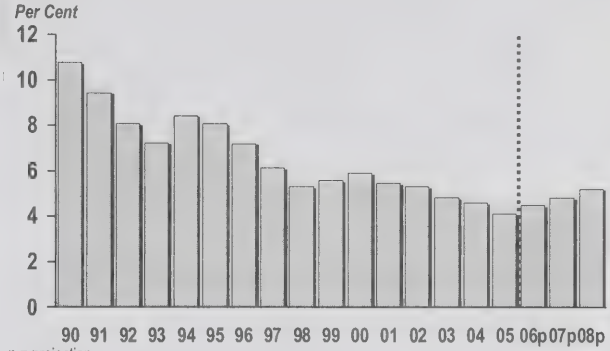
Interest Rates and Inflation

The Bank of Canada has increased its benchmark overnight rate five times, for a total of 125 basis points, to 3.75 per cent since September 2005. The Bank has increased interest rates based on its belief that the Canadian economy is operating at close to full capacity, which could lead to rising inflationary pressures. The core rate of inflation in Canada was 1.6 per cent in 2005 and has remained under two per cent for 26 consecutive months. Forecasters generally expect the Bank will increase interest rates at least one more time, by 25 basis points, while some expect as many as three interest rate hikes.

Canadian three-month treasury bill rates are forecast to average 4.0 per cent in 2006, 4.3 per cent in 2007 and 4.5 per cent in 2008. Ten-year Government of Canada bond yields are expected to increase modestly, rising from an average of 4.5 per cent in 2006 to 4.8 per cent in 2007 and 5.2 per cent in 2008.

The U.S. Federal Reserve Board has continued to raise interest rates at a measured pace since June 2004 and has pushed the key target for the federal funds rate to 4.5 per cent, for a total increase of 350 basis points. Currently, short-term U.S. interest rates are 75 basis points above the equivalent rates in Canada. Forecasters expect the Federal Reserve to stop increasing interest rates sometime in mid-2006.

10-Year Government of Canada Bond Rate



p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Canadian Interest Rate and Inflation Outlook

	2004	2005	2006p	2007p	2008p
3-month Treasury Bill Rate	2.2	2.7	4.0	4.3	4.5
10-year Government Bond Rate	4.6	4.1	4.5	4.8	5.2
Ontario CPI Inflation Rate	1.9	2.2	2.1	1.8	1.8

p = projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

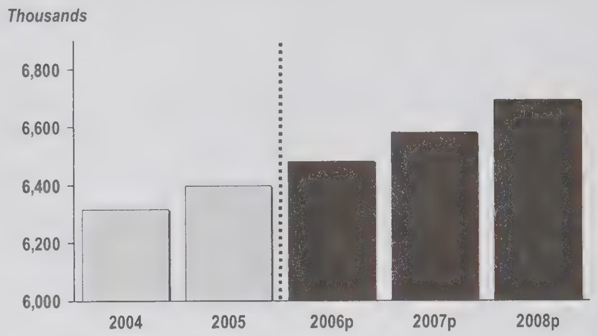
The Ontario consumer price index (CPI) inflation rate is expected to average 2.1 per cent in 2006, similar to the 2.2 per cent pace of 2005. Recent inflationary pressure has come from the sharp rise in oil prices, which caused Ontario gasoline pump prices to increase by 13.4 per cent in 2005, after a 9.4 per cent increase in the previous year. Other energy-related items recorded large price increases in 2005, including home heating fuel oil (22.9 per cent) and natural gas (4.3 per cent). Excluding food and energy prices, which tend to be volatile, inflation in Ontario was just 1.2 per cent in 2005, down from 1.4 per cent in 2004. The appreciation of the Canadian dollar has helped to offset some of the impact of rising oil prices on measured inflation rates. As the impact of high oil prices subsides, Ontario's CPI inflation rate is expected to average 1.8 per cent in 2007 and 2008.

This CPI inflation forecast excludes the impact of any potential changes in the federal goods and services tax (GST). Reducing the GST rate by one percentage point would lower consumer prices by about 0.6 percentage points in the month. This is less than the one per cent since consumer purchases such as basic groceries and rent are exempt from GST. The impact on Ontario's annual CPI inflation rate would be smaller if the reduction occurred part way through the year.

EMPLOYMENT TO STRENGTHEN

The Ontario economy added 81,200 net new jobs in 2005, an increase of 1.3 per cent over 2004. Almost 200,000 net new jobs have been created since October 2003. These new jobs include 74,000 in the education sector, 47,000 construction jobs, 36,000 in the finance, insurance, real estate and leasing sector, 31,000 wholesale and retail trade jobs and 18,000 professional, scientific and technical service jobs. Over 90 per cent of the jobs created were full time.

Ontario Employment

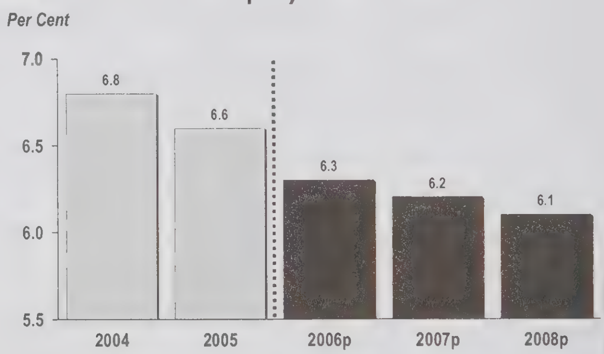


p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's unemployment rate fell to an average of 6.6 per cent in 2005, the lowest annual rate since 2001.

Employment is expected to increase by 1.3 per cent in 2006, or 85,000 jobs. As economic growth strengthens, job creation is expected to accelerate, with employment rising by an annual average of 1.6 per cent in the 2007 to 2008 period, generating an additional 209,000 jobs. Solid job gains are projected to steadily lower Ontario's annual average unemployment rate to 6.1 per cent by 2008.

Ontario Unemployment Rate



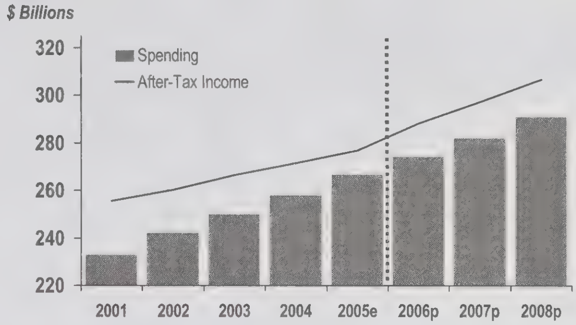
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Total wages and salaries increased by 4.9 per cent in 2005, far outstripping the 2.2 per cent increase in consumer prices. Wages and salaries are forecast to grow annually, averaging 4.8 per cent over the next three years, contributing to a comparable growth in personal income.

The projected growth in employment and incomes supports the projected average annual growth in Personal Income Tax (5.8 per cent), Ontario Health Premium (4.6 per cent) and Employer Health Tax (4.3 per cent) revenues over the 2006–07 to 2008–09 period.

INCOME GROWTH SUPPORTS HOUSEHOLD SPENDING

Ontario Real Consumer Spending and Real After-Tax Income



e = estimate; p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Personal income rose by an estimated 4.7 per cent in 2005, up from 3.8 per cent in 2004. Income gains throughout 2005 contributed to the ability and willingness of consumers to spend. Personal income is anticipated to rise 4.7 per cent in 2006.

These income gains will support increased real consumer spending, which is expected to rise a healthy 2.8 per cent in 2006, following an estimated 3.4 per cent gain last year. Over the medium term, real consumer spending is expected to grow by an average of 3.0 per cent in 2007 and 2008. The savings rate dipped to an estimated 1.3 per cent in 2005, the fourth consecutive year that the rate has hit a record low as consumer spending continued to outstrip income growth. However, this savings-rate measure does not take into account all financial sources available for spending, such as pensions, capital gains, and mortgage refinancing and home equity loans.

Retail sales are projected to rise 4.2 per cent in 2006, following a 4.7 per cent gain in 2005. The strong rise in the value of retail sales in 2005 was in part due to higher gasoline pump prices. Retail sales, excluding gas stations, increased 3.7 per cent in 2005. Over the 2007 to 2008 period, retailers are expected to enjoy a 4.6 per cent rise in sales per year. This growth in consumer spending supports the projected increases in Retail Sales Tax revenues, averaging 5.6 per cent over the 2006–07 to 2008–09 period.

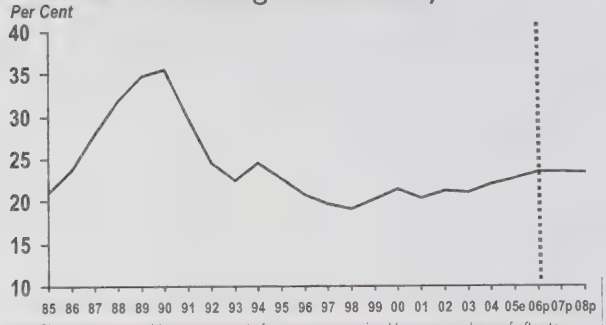
Ontario housing starts reached 78,800 units in 2005, below the 85,100 units recorded in 2004. Despite lower starts last year, the housing market performed above expectations. Housing starts are anticipated to decline further in 2006 to an average of 73,500 units. They are expected to move higher over 2007 and 2008, averaging 75,000 units per year.

Following four years of record activity, home resales slipped 0.2 per cent in 2005, reflecting in part higher short-term mortgage rates. Housing prices continued to climb, rising an average 7.3 per cent to $263,000 in 2005, following an 8.1 per cent gain in 2004. Given the high level of activity in recent years, fewer households are expected to buy homes in 2006. For planning purposes, home resales are projected to decline by close to five per cent in 2006 and prices are expected to rise by a more modest three per cent. This housing market outlook leads to a projected 1.4 per cent decline in Land Transfer Tax revenues in 2006–07, with growth recovering over the medium term.

Over the past few years, housing affordability has deteriorated modestly, mainly a reflection of rising house prices as the five-year mortgage rate moved down. Over the forecast period, mortgage payments as a share of after-tax income are expected to remain well below those experienced in the late 1980s.

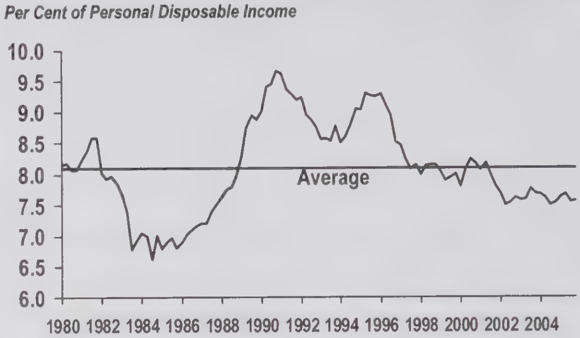
Despite households incurring record-high debt levels in 2005, debt costs have remained well contained. The ratio of Canadian debt costs to personal after-tax income was 7.6 per cent in the fourth quarter of 2005, below the 8.1 per cent average since 1980.

Ontario Housing Affordability



Note: The average monthly carrying costs for an average-priced home as a share of after-tax household income, based on payments amortized over 25 years and a 25 per cent down payment. e = estimate; p = projection.
Sources: Bank of Canada, Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

Canadian Household Debt Interest Costs

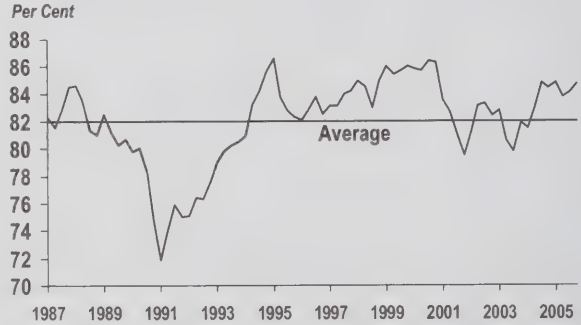


Sources: Finance Canada and Statistics Canada.

Investment to Lead Growth

Business investment spending on machinery and equipment remained robust in 2005, with estimated annual real growth of 6.7 per cent. At the same time, investment in commercial and industrial construction declined, with higher oil prices and the rise in the Canadian dollar the likely contributing factors.

Canadian Manufacturing Capacity Utilization Rate

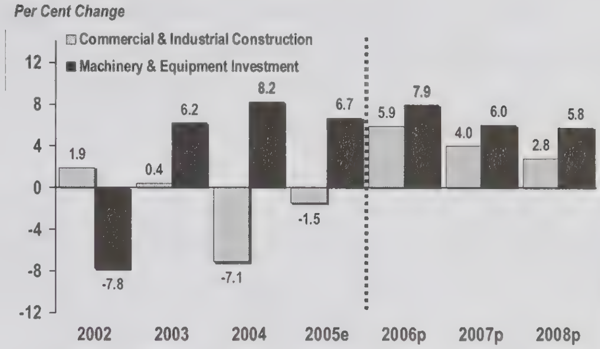


Source: Statistics Canada.

Healthy corporate financial positions, along with competitive pressures and high capacity utilization rates, have encouraged spending on machinery and equipment. Recently, Canadian manufacturing industries have been operating at historically high rates of capacity utilization. This should stimulate stronger investment in the manufacturing sector.

The Canadian debt-to-equity ratio has continued to decline in the last couple of years. Ontario pre-tax corporate profits increased by 6.2 per cent in 2005 and corporate profits as a share of GDP increased to 12.9 per cent, a 31-year high. Canadian corporations' internally generated cash flows have steadily increased, providing an important source of financing for business investment.

Real Business Investment



e = estimate; p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The high dollar is expected to dampen corporate profits in 2006, with growth slowing to 3.8 per cent. Profits are projected to increase by an average of 4.4 per cent in 2007 and 2008. Based on this profit growth projection, Ontario Corporation Tax revenues are forecast to grow by 1.2 per cent in 2006–07 and increase by an average of 3.1 per cent over the following two years.

According to Statistics Canada's investment intentions survey, Ontario businesses, including government business enterprises, intend to increase nominal investment spending on structures by 18.3 per cent in 2006 and on machinery and equipment by 8.8 per cent.

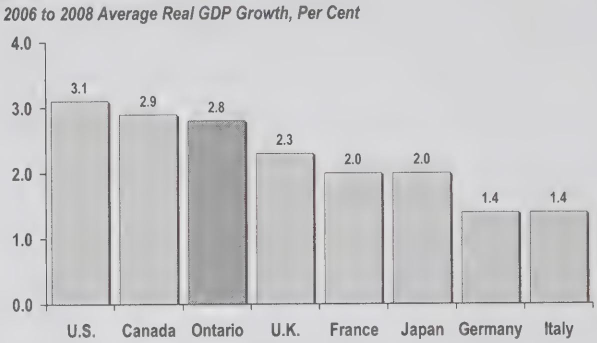
Real investment in machinery and equipment is projected to rise by 7.9 per cent in 2006. With over 60 per cent of capital equipment in Ontario imported, mainly from the United States, the strong dollar will continue to lower the cost of imported investment goods. Machinery and equipment investment is projected to increase by an average of 5.9 per cent from 2007 through 2008.

Commercial and industrial construction is expected to recover in 2006, with 5.9 per cent growth. In the past year, several large projects have been announced in the automotive industry. In addition, the government has advanced 33 projects to increase electricity supply, with investments totalling about $11 billion. The government's $500 million Advanced Manufacturing Investment Strategy will encourage investment by providing companies with loans towards projects involving process or technology innovations or energy efficiencies. This strategy is designed to help companies across the province take steps to develop and use leading technologies and innovations. Ontario's auto strategy has leveraged more than $5.7 billion of investment in Ontario. Projects supported through this strategy will undertake significant levels of investment in the next two years.

Economic Outlook Comparison with G7 Countries

Ontario is expected to remain among the fastest-growing regions when compared to major industrial countries over the 2006 to 2008 period. Private-sector forecasts expect real GDP growth in Ontario to average 2.8 per cent a year during 2006 through 2008, slightly trailing Canada as a whole and the United States.

Ontario and G7 Economic Growth



Sources: Consensus Forecasts (February 2006) and Ontario Ministry of Finance Survey of Forecasts (March 2006).

Ontario and G7 Economic Outlook, 2006 to 2008
Real GDP Growth (Per Cent)

	2006	2007	2008
Ontario	2.6	2.6	3.1
Canada	3.0	2.7	3.0
United States	3.2	3.0	3.1
France	1.9	2.0	2.1
United Kingdom	2.1	2.4	2.3
Germany	1.6	1.0	1.5
Italy	1.3	1.3	1.5
Japan	2.3	2.2	1.6

Sources: Consensus Forecasts (February 2006) and Ontario Ministry of Finance Survey of Forecasts (March 2006).

Details of the Ontario Economic Outlook

This table shows the key details of the updated economic outlook for 2006 to 2008.

The Ontario Economy, 2004 to 2008 (Per Cent Change)

	Actual		Projected		
	2004	**2005e**	**2006**	**2007**	**2008**
Real Gross Domestic Product	2.7	2.7	2.3	2.5	2.9
Personal consumption	3.2	3.4	2.8	2.9	3.1
Residential construction	4.1	(0.1)	(2.1)	1.4	1.9
Non-residential construction	(7.1)	(1.5)	5.9	4.0	2.8
Machinery and equipment	8.2	6.7	7.9	6.0	5.8
Exports	5.6	2.7	2.5	2.8	3.5
Imports	7.1	3.1	3.4	3.8	3.9
Nominal Gross Domestic Product	4.9	5.3	4.5	4.3	4.7
Other Economic Indicators					
Retail sales	3.2	4.7	4.2	4.5	4.7
Housing starts (000s)	85.1	78.8	73.5	74.5	75.5
Personal income	3.8	4.7	4.7	4.8	5.0
Wages and salaries[1]	4.0	4.9	4.7	4.7	4.9
Corporate profits	14.1	6.2	3.8	4.3	4.5
Consumer Price Index	1.9	2.2	2.1	1.8	1.8
Labour Market					
Employment	1.7	1.3	1.3	1.5	1.7
Job creation (000s)	103	81	85	97	112
Unemployment rate (per cent)	6.8	6.6	6.3	6.2	6.1

[1] Includes supplementary labour income.

e = estimate for GDP and components only; all other components are actual.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Comparison to the 2005 Budget

Ontario's economy performed much better than anticipated in 2005, despite the high dollar and rise in oil prices. Real GDP rose by an estimated 2.7 per cent in 2005, 0.7 percentage points higher than the 2005 Budget projection. Ontario created 81,000 jobs last year, 16,000 more jobs than expected in the 2005 Budget. Stronger job creation led to better income gains and more spending. Personal income rose 4.7 per cent in 2005, 0.9 percentage points higher than expected in the 2005 Budget. This income growth spurred increased household spending. Retail sales were stronger than expected due to higher consumer spending and higher spending on gasoline sales. Housing starts were also stronger than expected. Stronger growth led to higher corporate profits.

The outlook for Ontario growth over the 2006 to 2008 period, however, has declined since the May 2005 Budget. Ontario real GDP growth is now projected to be 0.5 percentage points lower in 2006, 0.9 percentage points lower in 2007 and 0.4 percentage points lower in 2008. This moderation in the province's growth prospects reflects the rapid appreciation in the Canadian dollar and sharply higher oil prices.

The next table shows the key forecast assumptions in the 2006 Budget compared to the 2005 Budget projection.

Changes in Key Economic Forecast Assumptions, 2005 Budget Compared to 2006 Budget

(Per Cent Change)	2005		2006		2007		2008	
	Budget	Actual	Budget of		Budget of		Budget of	
	2005		2005	2006	2005	2006	2005	2006
Real Gross Domestic Product	2.0	2.7e	2.8	2.3	3.4	2.5	3.3	2.9
Nominal Gross Domestic Product	3.9	5.3e	4.6	4.5	5.3	4.3	5.3	4.7
Retail Sales	4.0	4.7	3.9	4.2	4.0	4.5	4.4	4.7
Housing Starts (000s)	75.4	78.8	74.3	73.5	74.5	74.5	75.5	75.5
Personal Income	3.8	4.7e	4.6	4.7	4.9	4.8	5.1	5.0
Wages and Salaries[1]	3.6	4.9e	5.0	4.7	5.4	4.7	5.4	4.9
Corporate Profits	3.0	6.2e	4.0	3.8	4.0	4.3	4.5	4.5
Employment	1.0	1.3	1.8	1.3	2.0	1.5	2.0	1.7
Job Creation (000s)	65	81	118	85	130	97	131	112
Key External Variables								
Crude Oil ($ US per Barrel)	51.4	56.5	47.3	61.0	48.1	57.0	49.0	52.0
U.S. Real Gross Domestic Product	3.4	3.5	3.3	3.4	3.2	3.0	3.0	3.1
Canadian Dollar (Cents US)	82.8	82.5	83.7	87.0	83.9	87.0	84.0	87.0
3-month Treasury Bill Rate	2.6	2.7	3.4	4.0	4.3	4.3	4.7	4.5
10-year Government Bond Rate	4.6	4.1	5.2	4.5	5.7	4.8	6.0	5.2

1 Includes supplementary labour income.

e = estimate.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

PAPER C

Details of Taxation Measures

Emphasizing Priorities

Introduction

Ontario's tax system provides a variety of incentives to encourage economic growth and job creation. These incentives include support for research and development, manufacturing and processing, mining and exploration, apprenticeship training, and the entertainment sector and creative industries.

This Budget builds on the government's plan to invest in people and strengthen the Ontario economy while maintaining fiscal responsibility. Measures proposed in this Budget, such as accelerating the Ontario capital tax rate cut and fostering new investment in the entertainment and creative cluster, would advance Ontario's economic performance in the global economy.

This paper provides information on the taxation measures proposed in the Budget. For precise details of these measures, the reader is advised to consult the amending legislation.

Encouraging Economic Growth

Accelerating Ontario's Capital Tax Rate Cut

In 2004, the government legislated a plan to eliminate Ontario's capital tax by 2012 — a key element of the government's strategy to promote new investment, economic growth and job creation.

This Budget proposes to build on the government's original plan by accelerating the capital tax rate cut. Effective January 1, 2007 — a full two years earlier than the first currently scheduled rate cut — every corporation still paying capital tax would have its rate reduced by five per cent. Further, the government intends to eliminate the tax in 2010 should the fiscal position of the Province allow.

Ontario's capital tax, which taxes business investment rather than profits, is widely recognized as a barrier to attracting new investment and fostering economic growth. By proposing to accelerate the capital tax rate cut, the government is further enhancing Ontario's already competitive tax system.

The following table sets out the government's proposed changes to the capital tax elimination plan originally outlined in the 2004 Ontario Budget:

ONTARIO'S CAPITAL TAX ELIMINATION PLAN[1]

	Deduction ($ M)	Rates (%) Regular Corporations	Financial Institutions: 1st $400 M of Taxable Capital	Taxable Capital Above $400 M: Non-Deposit Taking	Taxable Capital Above $400 M: Deposit Taking
Jan. 1, 2004	5	0.3	0.6	0.72	0.9
Jan. 1, 2005	7.5	0.3	0.6	0.72	0.9
Jan. 1, 2006	10	0.3	0.6	0.72	0.9
Jan. 1, 2007[2]	12.5	0.285	0.57	0.684	0.855
Jan. 1, 2008	15	0.285	0.57	0.684	0.855
Jan. 1, 2009	15	0.225	0.45	0.54	0.675
Jan. 1, 2010	15	0.15	0.3	0.36	0.45
Jan. 1, 2011	15	0.075	0.15	0.18	0.225
Jan. 1, 2012	Eliminated				

Proposed 5% cut

1 Shading denotes proposed capital tax rate cut.

2 Proposed reduction would be pro-rated for taxation years straddling the effective date.

Extending the Carry-Forward Period for Business Losses Under the Corporations Tax Act

A fair and efficient tax system helps encourage business investment. Recognizing business losses and profits in determining tax liability over the course of economic cycles ensures both fairness and efficiency. Ontario allows non-capital losses to be carried back up to three years, and the 2004 Ontario Budget extended the period over which non-capital losses can be carried forward from seven to 10 years.

In November 2005, the federal government proposed an extension of the non-capital loss carry-forward period from 10 to 20 years. Subject to federal implementation, Ontario proposes to parallel the federal extension and effective date. This would further support Ontario businesses, particularly those engaged in research and innovation.

Entertainment and Creative Cluster Initiatives

Ontario's entertainment and creative cluster stimulates the creation of high value-added jobs and new investment in dynamic growth industries.

Ontario's world-class entertainment and creative cluster is strengthened by its highly skilled talent pool, quality of life and social diversity. It also benefits from its record of innovation, competitive business climate and supportive tax regime. The Ontario Government invests more than $120 million per year in targeted media tax credits, which have played a critical role in advancing Ontario as one of the largest entertainment and creative centres in North America.

This Budget proposes measures that would foster economic growth and job creation in the entertainment and creative cluster by ensuring that Ontario maintains its competitive position and seizes emerging opportunities in the international film and new media sectors.

Corporations Tax Act

Enhancing the Ontario Production Services Tax Credit

Ontario provides tax incentives to support film and television production in the province. The incentives are in the form of refundable tax credits, based on eligible Ontario labour expenditures.

The Ontario Film and Television Tax Credit (OFTTC) is available to Ontario-based, Canadian-controlled corporations for eligible film and television productions. The Ontario Production Services Tax Credit (OPSTC) is available to Ontario-based corporations for foreign-based and domestic productions not claimed under the OFTTC. Effective January 1, 2005, the OFTTC rate was raised to 30 per cent from 20 per cent until December 31, 2009, and the OPSTC rate was increased to 18 per cent from 11 per cent until March 31, 2006.

As announced on February 9, 2006, the government proposes to extend the 18 per cent tax credit rate for the OPSTC until March 31, 2007. This proposed extension reflects the government's commitment to support Ontario's film and television industry, and to help ensure that it remains competitive.

Expanding the Ontario Interactive Digital Media Tax Credit

The Ontario Interactive Digital Media Tax Credit (OIDMTC) is a 20 per cent refundable tax credit for eligible expenditures incurred by qualifying corporations, with annual gross revenues of up to $20 million and total assets of up to $10 million, to develop eligible interactive digital media products in Ontario. This refundable tax credit is targeted at smaller, multimedia companies that develop and market their own interactive digital media products, such as educational CD-ROMs or games.

The Budget proposes to raise the tax credit rate from 20 per cent to 30 per cent for corporations qualifying under the existing OIDMTC provisions. This would provide greater support for Ontario's smaller interactive digital media companies while creating more opportunities for Ontario's highly skilled talent pool.

The Budget also proposes to extend eligibility for the OIDMTC at a rate of 20 per cent to multimedia developers that exceed the current size test and to fee-for-service work done in Ontario. For fee-for-service work, the OIDMTC would be based on the Ontario salaries and wages of a corporation that develops all or substantially all of an eligible product under contract with an arm's-length party. The extension to fee-for-service work would enable, for example, a video-game developer creating a product in Ontario under contract with a publishing company to be eligible for the OIDMTC.

These enhancements would increase Ontario's competitiveness in this high-growth sector, help attract more investment to the province, and encourage Ontario companies to invest in new technologies and provide more skilled jobs in Ontario.

These measures would be effective for expenditures incurred after March 23, 2006 and before January 1, 2010. Prior to 2010, the government will consult with stakeholders on the effectiveness of the OIDMTC and these proposed enhancements.

Retail Sales Tax Act

Expanding the Retail Sales Tax Exemption for Complimentary Admissions Tickets

Ontario's entertainment sector is also supported by targeted retail sales tax incentives aimed at encouraging attendance at a variety of Ontario's entertainment-related venues.

One example of this support is Ontario's current exemption for donations of admissions tickets to registered charities by owners and operators of places of amusement. This provides both direct benefits to charities for their client groups, and indirect benefits of using the tickets for charitable fundraising.

To build on this support, Ontario proposes to expand this exemption to include complimentary tickets donated to community colleges, schools and universities. Not-for-profit organizations, as defined by the Minister, would also be eligible recipients for exempt complimentary tickets. This proposal would be effective for tickets donated after March 23, 2006 by owners and operators of places of amusement.

This measure would encourage additional donations to more eligible organizations.

Extending the Retail Sales Tax Exemption for Destination Marketing Fees

In December 2003, the Greater Toronto Hotel Association announced that it would impose a voluntary three per cent destination marketing fee. The proceeds of the destination marketing fees are to be used to fund destination marketing initiatives, which encourage tourism. A number of regions in Ontario have since implemented a destination marketing fee to promote tourism in their communities. The destination marketing fee would ordinarily be subject to the five per cent retail sales tax on accommodations as part of the fair value of the accommodations.

The 2004 Ontario Budget introduced a one-year retail sales tax exemption for destination marketing fees to support the hotel industry's initiative in promoting tourism in Ontario. The 2005 Ontario Budget extended this temporary exemption to June 30, 2006.

The government proposes to extend the temporary retail sales tax exemption for destination marketing fees for an additional year. Destination marketing fees billed on or before June 30, 2007 would qualify for exemption from the five per cent retail sales tax on accommodations. Eligibility rules would remain unchanged.

This measure would continue to support an industry-sponsored initiative to finance marketing that promotes Ontario as a destination for tourism.

HELPING SENIORS

Income Tax Act

Ontario Property and Sales Tax Credits for Seniors

The Ontario Property and Sales Tax Credits for seniors were established in 1992 to provide assistance to seniors with modest incomes. In 2004, the government enriched these refundable credits by increasing the underlying property tax credit amount for seniors by 25 per cent, from $500 to $625. In 2005, the government enriched the credits again by increasing the income threshold at which senior couples' benefits are reduced to $22,250.

The 2006 minimum level of income guaranteed by the Ontario and federal governments for eligible senior couples is rising because of increases to Old Age Security (OAS) and Guaranteed Income Supplement (GIS) payments. As a result of these increased amounts, the minimum level of income guaranteed by governments, including Ontario's Guaranteed Annual Income System (GAINS), for qualifying Ontario senior couples is rising above $22,250 in 2006.

The Government of Ontario wants seniors who receive the guaranteed minimum level of income to get the full benefit of the Ontario Property and Sales Tax Credits. To achieve this goal, the government proposes to increase the income threshold for senior couples in 2006. The new level would be determined when the federal government finalizes OAS and GIS amounts for 2006. This means that about 695,000 senior families would benefit in 2006 from an estimated $94 million in enrichments to the Ontario Property and Sales Tax Credits for seniors made by this government since 2004.[1]

[1] Estimate based on anticipated adjustment to the 2006 income threshold for senior couples.

Corporations Tax Act

Supporting Renewable Energy in the Forestry Sector

Black liquor is a byproduct of the paper-making process, formed during the pulping of wood. It is also a form of biomass — Canada's second-largest renewable energy source.

Renewable bioenergy technologies are capital intensive. To help the industry remain competitive and to support investment in advanced technologies, Ontario proposes to parallel, subject to federal implementation, the capital cost allowance provisions announced by the federal government in November 2005 relating to co-generation systems that use black liquor. Encouraging businesses to invest in this form of bioenergy would help to support increased energy efficiency.

Retail Sales Tax Act

Doubling the Retail Sales Tax Rebate for Hybrid Electric Vehicles

The government is committed to further encouraging energy conservation in Ontario. Hybrid vehicles help conserve energy as they are more fuel efficient than comparable traditional models. Hybrids also provide a positive environmental benefit by reducing greenhouse gas emissions. The government currently refunds the eight per cent retail sales tax paid on an eligible hybrid electric vehicle, to a maximum of $1,000.

The government proposes to double the maximum retail sales tax rebate for qualifying hybrid electric vehicles from $1,000 to $2,000 for vehicles delivered to purchasers after March 23, 2006. The government also proposes to introduce a sunset date of March 31, 2012 for the rebate for hybrid electric vehicles, including the proposed enhancement. Prior to 2012, the government will consult with stakeholders on the effectiveness of this tax expenditure program. The maximum rebate for alternative fuel vehicles other than hybrid electric vehicles will remain unchanged.

Doubling the rebate would help to make fuel-efficient hybrid vehicles more attractive for Ontarians. This measure also supports the auto industry's efforts to improve vehicle technology and produce more fuel-efficient vehicles.

Gasoline Tax Act

Supporting Ontario Ethanol Production

The government is committed to reducing greenhouse gas emissions by implementing a Renewable Fuels Standard, which will require an average of five per cent ethanol content in gasoline, effective January 1, 2007. Building on this commitment, on June 17, 2005, the Premier announced a new 12-year, $520 million Ontario Ethanol Growth Fund to support the production of ethanol in the province. As the Premier's announcement indicated, to help fund this major investment in ethanol production, Ontario proposes to remove the exclusion of ethanol from the definition of gasoline under the Gasoline Tax Act. Ethanol would, therefore, be subject to the same tax treatment as gasoline.

It is proposed that this change would coincide with the implementation of the Renewable Fuels Standard, regulated under the Environmental Protection Act, to be effective January 1, 2007.

Paralleling Federal Measures

Corporations Tax Act

Agricultural Cooperative Corporations

To help agricultural cooperative corporations preserve their capital, the 2005 federal budget proposed a tax deferral for certain patronage dividends received by members of these cooperatives. Where a patronage dividend is received in the form of eligible shares, the federal measure would defer the income inclusion from the year the share is received to the year the share is disposed of. This deferral would remove the need for agricultural cooperatives to pay a portion of patronage dividends in cash in order to satisfy their members' tax liabilities on the share dividend.

If enacted federally, Ontario would automatically parallel this measure under its personal income tax collection agreement with the federal government. To ensure a consistent tax treatment between individual and corporate members of agricultural cooperatives and to support Ontario's agricultural sector, Ontario also proposes to parallel the federal measure and its effective dates for corporate members of agricultural cooperatives.

Expenses Incurred in Issuing Shares, Options and Other Interests

On November 17, 2005, the federal government released proposed legislation to limit the expenses a taxpayer can claim in respect of certain transactions, such as the issuance of shares. The federal proposals would clarify that the amount of an expenditure on which a tax credit or deduction may be claimed is limited to the cash outlay.

If implemented federally, Ontario proposes to parallel the federal provisions and their effective date.

Income Tax Act

Federal Plan to Introduce a New Dividend Tax Credit

On November 23, 2005, the federal government proposed changes to the taxation of dividend income, including the establishment of a second dividend tax credit. This proposal is designed to reduce the income taxes paid on eligible dividend income from Canadian corporations.

Critical details of the federal proposal are unavailable at this time. Ontario will review the federal legislation when it is introduced and will respond at that time.

Reducing Tax Compliance and Administration Costs

The government is committed to reducing the costs incurred by businesses in complying with Ontario's tax rules and the cost to government of administering the tax system. Cutting red tape and streamlining tax administration benefit all taxpayers. Reducing the tax compliance costs faced by Ontario businesses increases their cash available for reinvestment and Ontario's attractiveness as a place to invest.

Identifying opportunities to improve and simplify service delivery is an ongoing process. The government has implemented a number of measures, and several major initiatives are underway:

- employers have benefited from simplification of the process of remitting monthly instalments for Employer Health Tax by the change in the instalment base from an estimated payroll to an actual payroll, virtually eliminating any overpayments or underpayments of tax during a year;
- the electronic land registration system was enhanced to allow refund applications of Land Transfer Tax to be submitted electronically for first-time purchasers of newly constructed homes; and
- a pilot project is proceeding April 1, 2006 to simplify the Retail Sales Tax determination for small businesses providing computer program-related services.

Corporate Tax Collection Agreement

In May 2004, Ontario and the federal government signed an agreement that commits both governments to explore opportunities for collaboration in delivering public services. In November 2004, this Ontario-federal collaboration was extended to include the design of a federal collection and processing system for Ontario's corporate taxes that would:

- eliminate duplication and streamline tax collection so that Ontario businesses are more competitive because of reduced compliance costs;
- provide savings to Ontario taxpayers through reduced government administration;

- preserve the policy and administrative flexibility that Ontario needs to achieve its fiscal and economic objectives, while respecting the federal government's national objective of building a more integrated tax system; and
- recognize the Ontario and federal governments' commitments to their employees.

The integration of Ontario and federal corporate taxes is a significant undertaking that raises numerous issues with respect to policy flexibility, fiscal impacts, tax administration and human resources. Considerable progress has been made in resolving these issues and Ontario will work with the new federal government to conclude a memorandum of agreement on corporate tax collection as quickly as possible.

The memorandum of agreement would outline the commitments and undertakings by both governments necessary to implement a single corporate tax administration, including entering into a formal corporate income tax collection agreement and negotiating detailed agreements on matters relating to tax administration and human resources.

The government will introduce legislation that, if approved by the legislature, would authorize Ontario to enter into a corporate income tax collection agreement with the federal government following the signing of the memorandum of agreement. The proposed legislation would also permit Ontario to delegate the collection of other Ontario corporate taxes, such as the capital tax, to the federal government.

Ontario currently works closely with the Canada Revenue Agency (CRA) on numerous corporate tax administration initiatives to improve efficiency and reduce the compliance burden on businesses, including:

- coordinated and concurrent audits where feasible;
- extensive information sharing, including listings of proposed audits and audit results; and
- joint outreach activities, such as membership on local Tax Executive Advisory Groups and Tax Practitioner Consultation Groups.

To further Ontario's collaboration with the CRA in reducing corporate tax compliance costs for taxpayers, legislation will be proposed that would permit an early integration of federal and Ontario tax audits. The proposed legislation would enable the CRA to audit Ontario's corporate taxes for taxation years ending before the commencement of a corporate tax collection agreement.

Community Small Business Investment Funds Act

Labour-Sponsored Investment Funds (LSIFs)

On August 29, 2005, the government announced its intention to end the LSIF tax credit. On September 30, 2005, following consultations with industry, the timetable for the phase-out of the tax credit was established, which was subsequently implemented in the Budget Measures Act, 2005 (No. 2). Investors who purchase LSIF shares will have the opportunity to receive a provincial tax credit until the end of the 2010 tax year.

The Ministry of Finance also announced in September that it would consult further with the industry on transition rules governing pacing, eligibility and other reporting requirements. As a result of the consultations, the government proposes to introduce amendments to the Community Small Business Investment Funds Act that would:

- give LSIFs more flexibility in the management of their portfolios by expanding the types of investments they can hold;
- parallel the federal program's investment rules and restrictions; and
- create wind-up rules.

The proposed schedule for the phase-out and other complementary measures would encourage LSIFs to continue to support the portfolios of companies in which they have invested.

Electricity Act, 1998

Refund of Transfer Tax

The municipal electricity utility (MEU) transfer tax is a 33 per cent tax paid by a municipality or MEU that sells or transfers electricity assets to another entity. It was intended as a one-time tax on the sale of such assets. However, where the proceeds of that sale are used to acquire other electricity assets, which are subsequently sold, transfer tax may apply to that second sale. The effect is a "cascading" of tax on the proceeds of the first sale.

The Electricity Act, 1998 authorizes the Minister of Finance to set rules to relieve this "cascading" of transfer tax. Rules have been developed that would allow for the refund of transfer tax where the proceeds of a transfer are reinvested in other eligible electricity assets.

A draft regulation setting out the proposed rules will be posted on the Ministry of Finance website for industry comment with a view to finalizing the proposals in the summer of 2006.

Payments-in-Lieu of Tax

The Electricity Act, 1998 requires a municipal electricity utility (MEU) that is exempt from federal or Ontario corporate income tax to make payments-in-lieu (PIL) equal to the amount of tax it would be liable to pay if it were not exempt. This ensures a fair tax treatment between public- and private-sector electricity utilities.

For both federal and Ontario corporate income tax purposes, corporations are allowed to deduct donations made to a municipality. This deduction provides a benefit to MEUs and their municipal shareholders that is unavailable to private-sector electricity utilities. Unlike a private-sector utility, an MEU can make a donation to its municipal shareholder instead of paying it an after-PIL dividend.

To maintain a level playing field between public- and private-sector electricity utilities and their shareholders, it is proposed that MEUs not be allowed to deduct the value of gifts made to an Ontario municipality on or after March 23, 2006.

LAND TRANSFER TAX ACT

Unregistered Transfers of Land Between Affiliated Corporations — Effect of Registration

The Land Transfer Tax Act provides for the deferral and cancellation of tax for unregistered transfers of land between affiliated corporations, subject to certain conditions, unless a transfer is registered. Court interpretation has resulted in certain transfers between affiliated corporations being viewed as exempt even if they are registered. To address this, the Land Transfer Tax Act would be amended to reinforce the original intent of the provision.

Proposed amendments include specifying that if a document is:

- registered during the deferral period, the deferred tax would become payable; or
- registered after the deferred tax is cancelled, tax would be payable on the registration based on the earlier unregistered transfer of beneficial ownership.

Amendments to the interpretation of the term "affiliate" will be proposed to clarify that it does not extend beyond the specified criteria.

MINING TAX ACT

Deduction of Fines and Penalties

In 2005, the federal government enacted legislation implementing its 2004 budget measure to deny an income tax deduction for fines and penalties imposed under the law of a country, political subdivision of a country, or other body that has the authority to impose the fine or penalty. Ontario's Corporations Tax Act automatically adopted the federal provision.

The government proposes to apply the income tax restriction on deducting fines and penalties to the computation of tax payable under the Mining Tax Act. This measure would be effective for fines and penalties imposed after March 23, 2006.

RETAIL SALES TAX ACT

Clearance Certificates

A clearance certificate is required when assets are sold in the course of a sale of a business to which the Bulk Sales Act applies. The certificate states that taxes payable or collectable by the seller have been paid. In certain circumstances, all of the applicable taxes may not have been collected, resulting in revenue loss to the Province.

It is proposed that clearance certificate provisions under the Retail Sales Tax Act be amended to ensure that outstanding taxes may be collected from vendors after a certificate has been issued. The proposed measure would not affect the purchaser's protection associated with a clearance certificate.

TOBACCO TAX ACT

Tobacco Enforcement

Amendments will be proposed to the Tobacco Tax Act to strengthen Ontario's tobacco-related enforcement activities, including enhancements to allow greater information sharing among provincial, municipal and federal counterparts.

Technical Amendments

To improve administrative effectiveness and enforcement, and maintain the integrity and equity of Ontario's tax system, as well as enhance legislative clarity and regulatory flexibility to preserve policy intent, legislation will be proposed, including amendments to the following statutes:

- Assessment Act
- Business Regulation Reform Act
- Certified General Accountants Association of Ontario Act, 1983
- Chartered Accountants Act, 1956
- Community Small Business Investment Funds Act
- Corporations Tax Act
- Education Act
- Electricity Act, 1998
- Employer Health Tax Act
- Fuel Tax Act
- Gasoline Tax Act
- Highway Traffic Act
- Income Tax Act
- Land Transfer Tax Act
- Mining Tax Act
- Ministry of Revenue Act
- Municipal Act, 2001
- Public Service Pension Act
- Race Tracks Tax Act
- Retail Sales Tax Act
- Tobacco Tax Act

2006 Budget Impact Summary[1] ($ Millions)

	2006–07	2007–08	2008–09
Encouraging Economic Growth			
Accelerating Ontario's Capital Tax Rate Cut	(1)	(60)	(60)
Extending the Carry-Forward Period for Business Losses Under the Corporations Tax Act	–	–	–
Enhancing the Ontario Production Services Tax Credit	(12)	–	–
Expanding the Ontario Interactive Digital Media Tax Credit	(8)	(16)	(16)
Expanding the Retail Sales Tax Exemption for Complimentary Admissions Tickets	(3)	(3)	(3)
Extending the Retail Sales Tax Exemption for Destination Marketing Fees	(2)	(1)	–
Helping Seniors			
Ontario Property and Sales Tax Credits for Seniors[2]	(7)	(7)	(7)
Encouraging Energy Conservation and Efficiency			
Supporting Renewable Energy in the Forestry Sector	–	–	–
Doubling the Retail Sales Tax Rebate for Hybrid Electric Vehicles	(2)	(2)	(2)
Supporting Ontario Ethanol Production	13	52	52
Paralleling Federal Measures	(1)	(2)	(2)
Technical Measures	–	–	–
Total Taxation Changes	**(23)**	**(39)**	**(38)**

– small, non-existent or prevents revenue loss.

1 Numbers may not add due to rounding.

2 Estimate based on anticipated adjustment to the 2006 income threshold for senior couples.

PAPER D

Borrowing and Debt Management

Long-Term Public Borrowing

As an agency of the Ministry of Finance, the primary goal of the Ontario Financing Authority (OFA) is to manage the borrowing, debt and cash management activities of the Province and the Ontario Electricity Financial Corporation (OEFC) in a timely and cost-effective manner.[1]

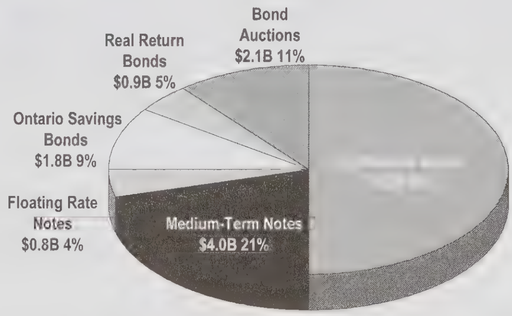
The interim long-term public borrowing requirement for 2005–06 is $23.8 billion, down $3.4 billion from the $27.2 billion estimated in the 2005 Budget Plan. The change in the long-term public borrowing requirement is mainly due to a decline in the deficit and a decision to bring cash (or liquid) reserves more into line with historical levels. Cash reserves of the Province and OEFC are projected at $6.1 billion as of March 31, 2006, which compares to average cash reserves of $6.0 billion over the past five years.

Approximately 80 per cent of the Province's borrowing program was completed in the domestic market through a number of instruments, providing a total of $19.1 billion, including:

- Syndicated issues;
- Medium-Term Notes;
- Bond auctions;
- Ontario Savings Bonds;
- Real Return Bonds; and
- Floating Rate Notes.

Borrowing – Domestic Market

$19.1 billion issued



Source: Ontario Financing Authority.

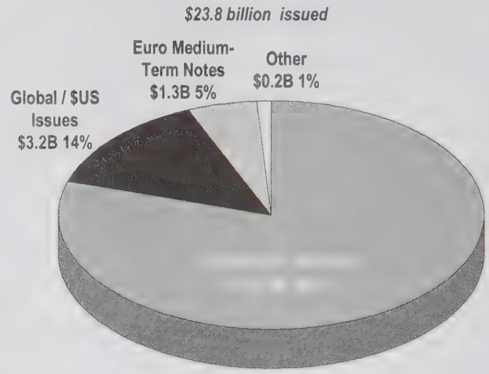
Following the success of Ontario's first real return bond (RRB) issue in September 2005, the OFA issued a second RRB for $300 million in March 2006, using derivatives to cost-effectively convert the issue into fixed rate debt.

[1] A glossary of terms is included at the end of this Paper.

While the majority of borrowing was completed in the domestic market, the Province also issued successfully in the international capital markets, including:

- Bonds denominated in U.S. and New Zealand dollars; and
- Euro Medium-Term Notes (EMTNs) in Canadian and Australian dollars and Swiss francs. Ontario also issued South African rand EMTNs, the first by any province.

Borrowing – All Markets



Source: Ontario Financing Authority.

The OEFC is the agency of the Province responsible for managing the debt and other liabilities of the former Ontario Hydro. Interim 2005–06 results for OEFC show an excess of revenues over expenditures of $1,085 million, reducing its unfunded liability (or "stranded debt of the electricity sector") from $20.4 billion to $19.3 billion. This is the first time that OEFC's unfunded liability has declined below the initial level of $19.4 billion at the time of the restructuring of the old Ontario Hydro on April 1, 1999.

2005–06 Borrowing Program: Province and OEFC ($ Billions)

	Budget Plan	Interim	In-Year Change
Deficit/(Surplus)	2.8	1.4	(1.4)
Adjustments for:			
Non-Cash Items Included in Deficit	2.3	3.9	1.6
Amortization of Major Tangible Capital Assets	(0.8)	(2.1)	(1.3)
Investment in Capital Assets	1.8	2.1	0.3
Debt Maturities	20.5	19.8	(0.7)
Debt Redemptions	0.7	1.1	0.4
Canada Pension Plan Borrowing	(1.2)	(1.0)	0.2
Increase/(Decrease) in Cash and Cash Equivalents	–	(1.5)	(1.5)
Decrease/(Increase) in Short-Term Borrowing	–	(1.8)	(1.8)
Other Uses/(Sources) of Cash	1.1	1.9	0.8
Total Long-Term Public Borrowing Requirement	**27.2**	**23.8**	**(3.4)**

Note: Numbers may not add due to rounding.

The increase in non-cash items included in the deficit is primarily due to accounting changes related to the consolidation of hospitals, school boards and colleges. These accounting changes resulted in a $1.3 billion increase in the amortization of major tangible capital assets. Also contributing to the increase are changes in the timing of receipts and expenses on a cash versus accrual basis.

The $0.7 billion decline in debt maturities is mainly attributable to debt issues with callable or extendible features that were shifted into the 2006–07 fiscal year.

Medium-Term Borrowing Outlook: Province and OEFC ($ Billions)

	2006–07	2007–08	2008–09
Deficit/(Surplus)	2.4	1.5	–
Adjustments for:			
Non-Cash Items Included in Deficit	1.1	1.7	1.5
Amortization of Major Tangible Capital Assets	(2.2)	(2.4)	(2.5)
Investment in Capital Assets	2.5	2.7	2.7
Debt Maturities:			
Currently Outstanding	15.1	13.9	19.3
Incremental Impact of Future Refinancing	–	1.0	–
Debt Redemptions	0.7	0.7	0.7
Canada Pension Plan Borrowing	(0.4)	(0.4)	(0 .6)
Increase/(Decrease) in Cash and Cash Equivalents	–	–	1.0
Decrease/(Increase) in Short-Term Borrowing	1.4	0.2	–
Other Uses/(Sources) of Cash	0.2	0.9	1.3
Total Long-Term Public Borrowing Requirement	**20.8**	**19.8**	**23.4**

Note: Numbers may not add due to rounding.

Refinancing maturing debt remains a primary component of the medium-term borrowing outlook. Debt maturities for the Province and OEFC are projected at $15.1 billion in 2006–07, $14.9 billion in 2007–08 and $19.3 billion in 2008–09.

The Canadian domestic market will remain the main funding source for the Province in 2006–07. However, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets to seek out diversified borrowing opportunities that minimize debt servicing costs.

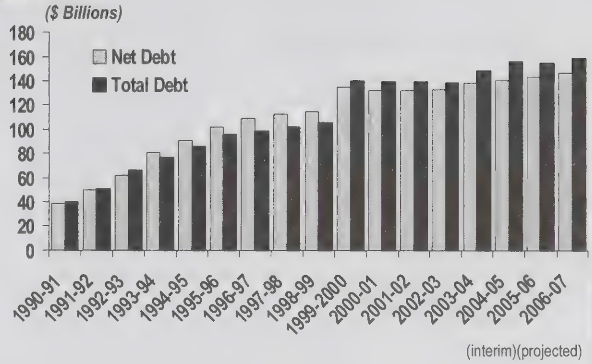
The government will seek the approval of the legislature for additional borrowing authority to meet program requirements.

Debt

The Province's total debt is projected to be $154.7 billion as of March 31, 2006.

Ontario's net debt, the difference between total liabilities and total financial assets of the Province, was $140.7 billion as of March 31, 2005 and is projected to be $143.0 billion as of March 31, 2006.

Debt



Sources: Ontario Public Accounts 1991-2005, Ontario Ministry of Finance, Ontario Financing Authority.

The debt of the Ontario Strategic Infrastructure Financing Authority (OSIFA) is projected to be $1.3 billion as of March 31, 2006. OSIFA's debt is included in total debt, but not in net debt, as its debt is offset by projected net assets of $1.3 billion. OSIFA's debt is not guaranteed by the Province.

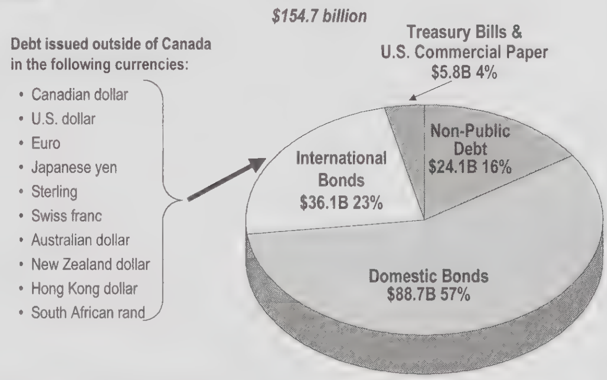
The non-financial assets include the consolidation of hospitals, school boards and colleges, which does not impact net debt.

Total Debt Composition

Total debt (projected as of March 31, 2006) is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.

Public debt totals $130.6 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $24.1 billion outstanding in non-public debt issued in Canadian dollars.

Total Debt Composition



Source: Ontario Financing Authority.

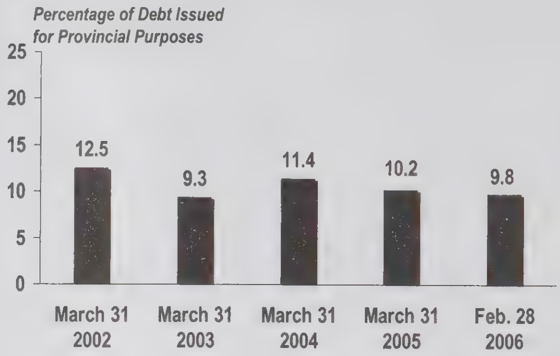
DEBT MANAGEMENT

The Province mitigates the financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

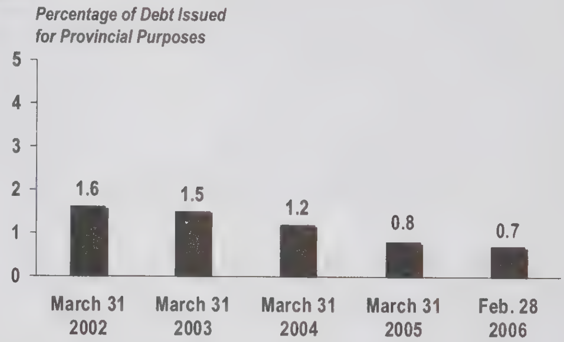
The Province's interest rate reset and foreign exchange exposures remained well below policy limits in fiscal 2005–06.

Interest Rate Reset Exposure



Excludes OEFC debt.
Source: Ontario Financing Authority.

Foreign Exchange Exposure

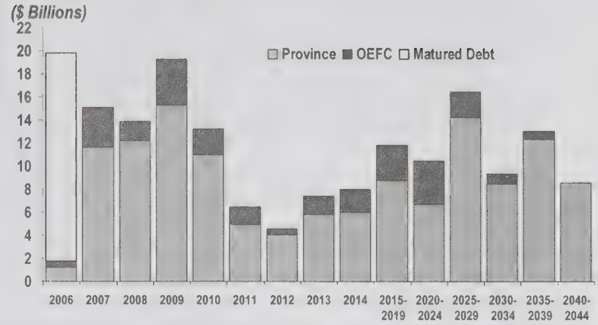


Excludes OEFC debt.
Source: Ontario Financing Authority.

Debt Maturities

The most significant component of the borrowing program is the refinancing of debt maturities. The OFA will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities

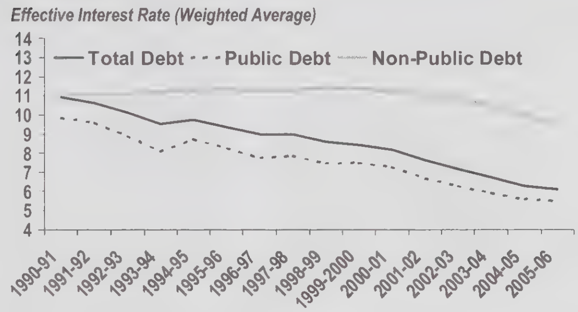


Excludes Province of Ontario and OEFC short-term debt and other liabilities. Assumes issues with options will be retired at the earliest possible date.
Excludes the incremental impact of future refinancing.
Source: Ontario Financing Authority. (As of February 28, 2006).

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt, which is projected to be $154.7 billion as of March 31, 2006, is 6.1 per cent, compared to 6.3 per cent on March 31, 2005 and 10.9 per cent on March 31, 1991.

Effective Interest Rate (Weighted Average) of Debt



Sources: Ontario Public Accounts 1991-2005 and Ontario Financing Authority.

During 2005–06, the Bank of Canada increased short-term interest rates. However, long-term rates declined to their lowest level in 45 years, resulting in a much flatter yield curve.

The Province has taken advantage of lower long-term rates by issuing a number of longer-dated bond issues in 2005–06. Approximately 67 per cent or $16 billion in bonds were issued in terms of 10 years or longer. This has contributed to the decrease in the cost of debt.

Consolidated Financial Tables

Net Debt and Accumulated Deficit Interim 2006

TABLE D1 ($ Millions)

	2001–02	2002–03	2003–04	2004–05	Interim 2005–06	Plan 2006–07
Debt[1]						
Publicly Held Debt						
Debentures and Bonds[2]	99,990	102,958	116,732	125,279	123,344	130,579
Treasury Bills	5,108	6,274	3,359	3,747	4,878	3,507
U.S. Commercial Paper[2]	1,566	1,515	1,156	269	705	705
Ontario Strategic Infrastructure Financing Authority (OSIFA)[3]	–	–	323	1,288	1,273	1,760
Other	447	438	422	404	385	–
Deposits with the Province of Ontario Savings Office (POSO)[4]	2,438	–	–	–	–	–
	109,549	111,185	121,992	130,987	130,585	136,551
Non-Public Debt						
Canada Pension Plan Investment Fund	11,944	10,746	10,233	10,233	10,233	10,233
Ontario Teachers' Pension Fund	11,043	10,387	9,487	8,666	7,596	6,411
Public Service Pension Fund	3,331	3,200	3,052	2,886	2,705	2,501
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,582	1,520	1,450	1,371	1,286	1,189
Canada Mortgage and Housing Corporation	1,116	1,078	1,047	1,003	959	913
Other[5]	581	356	1,096	1,231	1,348	1,234
	29,597	27,287	26,365	25,390	24,127	22,481
Total Debt	**139,146**	**138,472**	**148,357**	**156,377**	**154,712**	**159,032**
Cash and Temporary Investments	(5,773)	(7,252)	(8,139)	(13,422)	(6,460)	(6,460)
Other Net (Assets)/Liabilities[6]	(1,252)	1,427	(1,348)	(1,028)	(4,037)	(4,072)
OSIFA Net (Assets)/Liabilities[3]	–	–	(313)	(1,265)	(1,254)	(1,737)
Net Debt	**132,121**	**132,647**	**138,557**	**140,662**	**142,961**	**146,763**
Non-Financial Assets[7]	–	(13,942)	(14,369)	(14,919)	(29,908)	(31,360)
Accumulated Deficit[8]	**132,121**	**118,705**	**124,188**	**125,743**	**113,053**	**115,403**

1 Includes debt issued by the Province and Government Organizations, including Ontario Electricity Financial Corporation.

2 All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

3 OSIFA's interim 2005-06 debt is composed of Ontario Opportunity Bonds ($323 million), Infrastructure Renewal Bonds ($650 million) and short-term commercial paper ($300 million). OSIFA's debt is not guaranteed by the Province. OSIFA Net (Assets)/Liabilities includes cash, investments, interest and loans receivable, debt issue costs, accounts payable and loans payable.

4 The Province completed the sale of POSO to Desjardins Credit Union effective March 31, 2003, with the POSO liabilities to the depositors assumed by the purchaser.

5 Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrant Investor Corporation and indirect debt of school boards (the indirect debt of school boards was incurred in June 2003 to refinance the non-permanently financed debt of 55 school boards; an equivalent amount is included in Net Assets as advance payments to school boards).

6 Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, pensions and the liability for power purchase agreements with non-utility generators.

7 Non-financial assets include tangible capital assets and net assets of hospitals, school boards and colleges, which, starting with fiscal-year 2005–06, are consolidated using one-line consolidation.

8 Accumulated deficit represents net debt adjusted for non-financial assets. Accumulated deficit for 2005–06 includes the opening combined net assets of hospitals, school boards and colleges.

Source: Ontario Ministry of Finance.

Debt Maturity Schedule
Interim 2006

TABLE D2
($ Millions)

Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currencies[2]	Interim 2005–06 Total	2004–05 Total
Fiscal Year Payable							
Year 1	17,263	3,312	460	–	–	21,035	24,073
Year 2	8,086	5,405	320	–	230	14,041	14,864
Year 3	14,872	3,530	–	795	207	19,404	12,777
Year 4	8,413	1,654	710	1,443	870	13,090	19,276
Year 5	5,988	–	–	–	252	6,240	12,758
1–5 years	54,622	13,901	1,490	2,238	1,559	73,810	83,748
6–10 years	21,991	5,212	98	1,188	1,706	30,195	28,994
11–15 years	4,693	–	–	–	–	4,693	2,996
16–20 years	11,767	–	–	–	–	11,767	10,156
21–25 years	12,843	–	–	–	–	12,843	14,993
26–40 years[3]	21,404	–	–	–	–	21,404	15,490
Total[4]	**127,320**	**19,113**	**1,588**	**3,426**	**3,265**	**154,712**	**156,377**
Debt Issued for Provincial Purposes	102,882	14,755	1,588	3,426	2,648	125,299	127,571
OEFC Debt	23,165	4,358	–	–	617	28,140	27,518
OSIFA Debt	1,273	–	–	–	–	1,273	1,288
Total[5]	**127,320**	**19,113**	**1,588**	**3,426**	**3,265**	**154,712**	**156,377**

1 Euro includes debt issued in legacy currency, i.e., French franc.

2 Other currencies consist of the Australian dollar, New Zealand dollar, Pound sterling, Swiss franc, Hong Kong dollar and South African rand.

3 The longest term to maturity is to June 2, 2045.

4 Total foreign currency denominated debt as at March 31, 2006 is $27.4 billion (2005, $32.3 billion). Of that, $26.3 billion or 96.0 per cent (2005, $31.1 billion or 96.3 per cent) was fully hedged to Canadian dollars.

5 Total debt includes issues totalling $4.5 billion (2005, $2.9 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

Medium-Term Outlook
Net Debt and Accumulated Deficit

TABLE D3
($ Billions)

	2007–08	2008–09
Total Debt	**165.2**	**170.2**
Cash and Temporary Investments	(6.5)	(7.5)
Other Net (Assets)/Liabilities	(6.2)	(7.9)
OSIFA Net (Assets)/Liabilities	(2.7)	(3.6)
Net Debt	**149.8**	**151.2**
Non-Financial Assets	(32.9)	(34.3)
Accumulated Deficit	**116.9**	**116.9**

DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's and OEFC's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties.

DERIVATIVE PORTFOLIO NOTIONAL VALUE INTERIM 2006

TABLE D4 ($ MILLIONS)

Maturity in Fiscal Year	2006–07	2007–08	2008–09	2009–10	2010–11	6–10 Years	Over 10 Years	Interim 2005–06 Total	2004–05 Total
Swaps:									
Interest rate	7,610	12,518	10,030	7,727	1,847	18,061	3,693	61,486	69,116
Cross currency	4,588	4,438	4,626	5,020	496	9,140	–	28,308	30,947
Forward foreign exchange contracts	2,181	–	–	–	–	–	–	2,181	5,241
Caps and floors	443	–	–	88	–	–	–	531	761
Futures	–	–	–	–	–	–	–	–	62
Total	**14,822**	**16,956**	**14,656**	**12,835**	**2,343**	**27,201**	**3,693**	**92,506**	**106,127**

Glossary of Financial Terms Used in Paper D

Amortization of Major Tangible Capital Assets: the portion of the cost of major tangible capital assets owned by the Province allocated to annual expense, the portion of the cost of tangible capital assets of fully consolidated government organizations allocated to annual expense, and the Province's portion of the cost of major tangible capital assets of hospitals, school boards and colleges allocated to annual expense.

Canada Pension Plan Borrowing: the Province has the option of borrowing from the Canada Pension Plan as a source of long-term borrowing.

Cap: a contract that allows the purchaser to put a ceiling on the contractual interest rate of a liability.

Debt Maturities: total forecasted amount of debt that will be due for repayment in the fiscal year.

Debt Redemptions: total forecasted amount of variable and step-up Ontario Savings Bonds expected to be redeemed in the fiscal year.

Derivatives: are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and minimize interest costs.

Domestic Bonds: debt securities issued in the domestic market, clearing through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): issued outside the United States and Canada and structured to meet individual investor requirements.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index, and pay out at a predetermined yield spread to the index.

Floor: a contract that allows the purchaser to have a lower limit on the total rate of return of an asset.

Forward Foreign Exchange Contract: an agreement between two parties to set exchange rates in advance.

Future: an exchange-traded contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies including Canadian and U.S. dollars.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash and other short-term liquid instruments.

Investment in Capital Assets: the cost of acquiring major tangible capital assets owned by the Province during the year, including land, buildings, highways and bridges; the cost of tangible capital assets acquired by fully consolidated government organizations, including land, buildings and equipment; and the Province's portion of the cost of tangible capital assets acquired by hospitals and colleges during the year, including land, buildings and equipment.

Medium-Term Notes (MTNs): debt instruments offered under a registered program and structured to meet specific investor needs.

Non-Cash Items Included in Deficit: adjustments to the deficit (reported on an accrual basis) to determine cash flows to be used in operating activities. Non-cash adjustments include revenues that are earned but not received and/or expenses that were recognized but not paid during the fiscal year.

Notional Value: represents the face value of outstanding contracts. It does not represent cash flows.

Option: a contract whereby the buyer has the right to buy/sell a designated instrument at a specified price within a specified period of time.

Real Return Bonds (RRBs): debt securities that pay investors a rate of return that is adjusted for inflation using the Canadian consumer price index (CPI).

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Syndicated Issues: debt securities that are underwritten by a group of investment dealers.

Treasury Bills: short-term debt instruments issued by governments on a discount basis usually for durations of 91 days, 182 days or 52 weeks.

U.S. Commercial Paper (CP): short-term debt typically issued by a government or corporation on a discount basis. CP is limited to terms of one to 270 days.

Yield: the effective rate of interest paid on a bond. Yield is the annual rate of return of any investment or debt and is expressed as a percentage.

Yield Curve: the relationship between market yields and bond maturities. It is often upward-sloping with maturity, due to investors' requirements for a greater yield when committing their funds for a longer investment horizon.

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